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TREASURY DEPARTMENT

United States Savings Bonds Issues and Redeemed Through January 1965
(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	4,992	11	.22
Series F & G-1941 - 1952	29,521	29,421	100	.34
Series J and K - 1952	400	374	26	6.50
UNMATURED				
Series E: 3/				
1941	1,842	1,574	268	14.55
1942	8,133	6,976	1,157	14.23
1943	13,090	11,256	1,834	14.01
1944	15,259	12,978	2,281	14.95
1945	11,955	9,926	2,029	16.97
1946	5,379	4,257	1,122	20.86
1947	5,075	3,843	1,232	24.28
1948	5,234	3,861	1,373	26.23
1949	5,154	3,719	1,434	27.82
1950	4,498	3,173	1,325	29.46
1951	3,895	2,741	1,154	29.63
1952	4,077	2,824	1,253	30.73
1953	4,643	3,084	1,559	33.58
1954	4,721	2,989	1,732	36.69
1955	4,902	2,946	1,957	39.92
1956	4,683	2,828	1,855	39.61
1957	4,401	2,593	1,808	41.08
1958	4,260	2,372	1,888	44.32
1959	3,987	2,172	1,815	45.52
1960	3,972	2,041	1,931	48.62
1961	3,987	1,867	2,120	53.17
1962	3,838	1,689	2,148	55.97
1963	4,250	1,561	2,690	63.29
1964	3,758	866	2,891	76.93
Unclassified	406	472	-66	
Total Series E	135,398	94,608	40,789	30.13
Series H (1952 - Jan. 1957) 3/	3,670	1,637	2,033	55.40
H (Feb. 1957 - 1964)	6,574	945	5,629	85.63
Total Series H	10,245	2,582	7,662	74.79
Total Series E and H	145,643	97,190	48,451	33.27
Series J and K (1953 - 1957)	3,323	1,972	4/ 1,352	40.69
All Series: Total matured	34,924	34,787	137	.39
All Series: Total unmatured	148,966	99,162	49,803	33.43
All Series: Grand Total	183,890	133,949	49,940	27.16

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.

BUREAU OF THE PUBLIC DEBT

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Series Grand Total	183,890	133,949	49,940	27.16

Includes accrued discount.
Current redemption value.
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Includes matured bonds which have not been presented for redemption.

BUREAU OF THE PUBLIC DEBT

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
HOUSE OF REPRESENTATIVES
FEBRUARY 1, 1965
10:00 A.M.

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss H.R. 3818, which would implement a recommendation by the President in his Economic Message to adapt the gold reserve provisions of the Federal Reserve Act to the realities of present and prospective monetary requirements. This would be achieved by eliminating the provision of existing law that the Federal Reserve Banks hold gold certificates equivalent to at least 25% of their own deposit liabilities. The similar requirement that a gold certificate reserve of 25% be maintained against Federal Reserve notes in circulation would not be affected.

The Need for Action

The need for this legislation does not arise from any sudden emergency or crisis, nor does it signal any prospective change in the economic and financial policies of the Administration or of the Federal Reserve System. In the future as in the past, our domestic monetary policies will be directed toward meeting the

basic needs of our economy for adequate, but not excessive, amounts of money and credit. Gold will continue to be made freely available at the fixed price of $35 per ounce, to meet the legitimate demands of foreign monetary authorities -- a policy that is the basic foundation of the international monetary system. The purpose of this legislation is simply to eliminate any unnecessary questions or doubts about our ability to discharge these two fundamental responsibilities with full effectiveness over the years ahead.

Sustained, healthy growth at home -- marred neither by inflationary excesses nor by widespread unemployment and wasted resources -- must necessarily be supported by orderly growth in the volume of money and credit. This monetary expansion will, in turn, require a larger base of bank reserves, which are held largely in the form of deposits by the commercial banks at the Federal Reserve. It will also mean larger amounts of currency in circulation -- currency consisting almost entirely of Federal Reserve notes -- as the rising volume of trade generates additional demands for cash.

Under the provisions of present law, these expanding Federal Reserve note and deposit liabilities will in turn require that increasing amounts of our gold be set aside as part of the Federal

Reserve Banks' gold certificate reserves. But, the present operating margin of so-called "free gold" over and above existing requirements is already relatively small. The normal growth of our domestic money supply will exhaust this margin within a year or two, even without the outflow of a single ounce of gold.

Clearly, the capacity of the Federal Reserve to accommodate the monetary and credit needs of a strong and growing economy with stable prices must not be jeopardized. Equally clearly, our pledge to maintain the convertibility of the dollar into gold at $35 an ounce must not be cast into doubt by fear that our gold stock available for that purpose may be inadequate.

True enough, the emergency provisions of present law can be invoked if needed to suspend the gold cover requirement, but these provisions clearly are framed for temporary use rather than for long-range needs of growth. H.R. 3818 would meet this problem simply and straightforwardly, for as long ahead as anyone can now foresee, by immediately freeing almost $5 billion of gold presently held as reserves against Federal Reserve deposits. It will also permit us to avoid the present necessity of automatically setting aside additional gold as the growth of our economy enlarges the volume of bank deposits.

The Present Situation

At the end of 1964, the volume of Federal Reserve notes in circulation -- which make up over 95% of our basic currency -- totaled $35.3 billion. At the same time, Federal Reserve deposit liabilities amounted to $19.5 billion. Together, these Federal Reserve liabilities required a gold certificate reserve of $13.7 billion, absorbing for that purpose all but $1.4 billion of the gold certificates issued to the Federal Reserve against the Treasury gold stock. And since January 1st the Treasury gold stock has declined by $200 million as a result of sales to foreigners, with further losses to be expected.

In terms of ratios, gold certificate holdings had fallen to 27.5% of the note and deposit liabilities on December 31, 1964. This represented a decline of 2.2 percentage points in the ratio in the space of a year -- and during that year our loss of gold to foreigners amounted to only $125 million. The decline in the ratio during 1964 was thus almost entirely accounted for by the needs of our domestic economy for additional money and bank credit and by the expansion in currency that is a normal reflection of growing trade and business turnover.

Looked at over a longer period of time, it is true that declines in our gold stock, as well as increases in Federal Reserve

notes and deposits, have contributed to the declining ratio. These losses of gold to foreigners are, of course, closely connected to the balance of payments deficits we have run over the past 15 years.

It is essential that the vigorous effort launched in 1961 to reduce and eliminate that deficit and to stem the gold loss be continued and reinforced until equilibrium is restored. The Administration, as you know, attaches the highest priority to that effort, and the President will shortly review our entire balance of payments program in a special message to the Congress.

However, it is abundantly clear that the U.S. cannot expect to support its own long-term monetary expansion -- an expansion that will inevitably be associated with the continued growth of our domestic economy -- by attracting to this country a disproportionate share of world gold reserves. The fact is that, even after the large gold outflow of the past decade or more, the United States still holds some 35% of the monetary gold of the entire free world. Certainly, it is essential that this country, with the dollar playing a key role as a world reserve and trading currency, continue to hold a large gold stock, and our policies are directed toward that end. Moreover, as our balance of payments deficit is ended, some reflux of gold from abroad could be a normal and healthy development. But, it would be short-sighted and self-defeating

to attempt deliberately to draw in from abroad the billions of dollars of gold that would be necessary over the years simply to meet the mechanical requirements of present law as our economy grows.

During the past year, Federal Reserve Notes in circulation increased by $2,466 million. Of this, $662 million resulted from a decline of the same amount in the circulation of silver certificates. Meanwhile deposits of member banks, representing their required reserves, also grew $1,037 million during 1964. Thus, disregarding the temporary, one-time impact of the retirement of silver certificates, it was necessary under present law to add over $700 million of gold to the reserves required against Federal Reserve notes and deposits. This amount is more than the average annual increase over recent years in monetary stocks of gold in the entire free world.

If we attempted to drain gold from abroad year after year in the amounts needed to meet the essentially arbitrary and outmoded gold cover provisions of present law, the only result would be a drive by other countries to protect their own gold by controls and restrictions that would sacrifice all the progress that has been made toward freer trade and payments among the nations of the free world. Far from looking toward future increases

in our gold stock adequate to meet the gold cover requirement, the hard fact is that until our own balance of payments can be brought into equilibrium, we must be prepared for further outflows.

The Purpose and Effectiveness of the Gold Reserve Requirement

The current gold cover requirement is an outgrowth of a much earlier period in our monetary history, and can be fully understood only in the context of circumstances that have long since vanished. Prior to the establishment of the Federal Reserve System in 1913, the several kinds of paper currency then in use circulated alongside gold coins domestically, and were freely convertible, directly or indirectly, into gold. In an effort to protect this convertibility, a variety of devices was used at various times to maintain the note circulation in a fixed relationship to gold and to provide assured redemption facilities. One result was that the supply of currency was not responsive to the changing needs of the economy, and this so-called "inelasticity", combined with deficiencies in the banking structure, helped make the economy prone to recurrent bouts of inflation and panic.

The Federal Reserve System was designed to eliminate these defects by providing a means for adjusting the supply of currency, deposits, and credit flexibly to the needs of commerce and business. At the same time, however, our currency, including the new Federal

Reserve notes, remained convertible into gold. Under these circumstances it was entirely natural that those framing the Federal Reserve Act included a provision that the Federal Reserve Banks maintain certain minimum reserves of gold in relation to their note and deposit liabilities, even though the passage of the Federal Reserve Act clearly recognized that the supply of money and credit should be adjusted to the needs of the economy rather than set in some fixed relationship to gold. These minimum requirements were apparently considered desirable largely to encourage full public confidence in the new institutions; to assure acceptability of the newly introduced Federal Reserve notes alongside gold; and finally to provide some ultimate limit to the expansion of Federal Reserve credit.

It is also worthy of mention that the original Federal Reserve Act treated reserves against deposits in a different manner than reserves against Federal Reserve currency. In the first place the reserves against deposits were originally set at 35% while those against notes were set at 40%. Possibly more significant is the fact that the original Federal Reserve Act provided for reserves against notes to be held only in gold, but permitted either gold or "lawful money" to serve as reserves behind deposit liabilities.

Only since 1945, when the current 25% requirement was established, have note and deposit liabilities been treated in the same fashion. Thus there is clear precedent for treating deposit liabilities in a different fashion from Federal Reserve notes as far as reserves are concerned.

I believe the record of the past half century makes it amply clear that the provision of Federal Reserve credit, and the associated increase in its note and deposit liabilities, has, quite properly, been related to the needs of the economy rather than to the reserve requirements specified by law.

During the first two decades of the Federal Reserve System, when our currency was still redeemable in gold domestically, the level of Federal Reserve Bank deposits and currency typically fluctuated far below the limits set by the gold reserve requirement. As shown by the table attached to my statement, this remained the pattern during the 1930's and early 1940's, after the convertibility of our currency into gold by American residents was ended. At one time, in 1940, the ratio actually rose as high as 91%.

Toward the end of World War II, there was concern that the vast expansion of money and credit required by wartime financing might exhaust the "free gold" held in excess of legal requirements, thus hampering the war effort. Congress consequently reduced the

reserve requirements set by the original Federal Reserve Act to the present uniform requirement of 25% in gold against both notes and deposits. As it turned out, of course, the war was soon over, and the actual ratio remained over 40% until 1959. This experience clearly demonstrates that the release of gold from the legal requirement in excess of the needs that actually materialized did not become a basis for an unwarranted expansion in Federal Reserve credit.

Today, the strong probability that the present margin of gold over the 25% requirement will be exhausted within a relatively short time no more indicates a need for domestic monetary restriction than the existence of a wide margin of "free gold" in the past provided a useful signal or excuse for monetary expansion. The fact is that, the Federal Reserve, in discharging the fundamental responsibility delegated to it by the Congress for regulating the supply of money and credit in accord with the needs of the economy, must not be constricted by an arbitrary formula designed for another time.

While the desirability of eliminating the gold reserve requirement against Federal Reserve Bank deposits appears to me beyond dispute, I recognize that the purpose of any change in a requirement of this kind that has lingered on for many years can

easily be misunderstood and misconstrued. There may be some, for instance, who fear that this action may in some fashion imply a departure from the Administration's firm policy of maintaining the stability of the dollar both at home and internationally. Let me, therefore, make it crystal clear that I am most keenly aware of the dangers that can come from an undisciplined expansion of credit. The proposal before you does not carry this danger.

In the future, as in the past, the best assurance we can have that the supply of bank reserves will be neither so little as to stifle growth nor so large as to fuel inflation lies in a responsible and independent Federal Reserve System, functioning within a framework of responsible Government. For our part, this Administration has and will continue to work in close cooperation with the Federal Reserve in developing an effective financial program, while fully respecting its unique place within our structure of Government and its special responsibility for developing informed, independent judgments concerning monetary policy.

International Implications

President Johnson has recently reiterated the fixed policy of the United States to defend the present gold value of the

dollar "with every resource at our command". The Chairman of the Federal Reserve Board has repeatedly made it clear that the existing gold reserve requirement need be no bar to our making good on that pledge. Present law provides that the gold requirement can be suspended -- initially for thirty days, and subsequently for intervals of fifteen days. It should be clearly understood by all that that provision of law could and would be invoked if required to meet foreign demands, and that the suspension would be renewed as long as needed.

It would clearly be incongruous, however, to fall back on special and easily misunderstood powers for temporary suspension at a time when we are dealing with basic long-term problems rather than with a passing emergency. Reliance on a temporary arrangement can give rise to totally unwarranted doubts at home and abroad over the extent of our commitment to the international stability of the dollar, and over our ability fully to support that commitment. Without question, prompt passage of the measure before you, unequivocally releasing some $5 billion of gold from the present requirement, will reinforce confidence in the stability and strength of the dollar by placing beyond any doubt the willingness of both the Executive and Legislative Branches to make our gold fully available in its defense.

In this connection, it is worth emphasizing that almost all industrially important foreign countries have long since abandoned any rigid tie between their gold holdings and the domestic monetary system. One relatively small country -- Belgium -- fixes a minimum legal ratio between gold and central bank note and deposit liabilities. One other country -- Switzerland -- has retained a link to the note issue (as would H.R. 3818), but it has no requirement against other central bank liabilities. In the Netherlands, the comparable reserve requirement can be met by holdings of foreign exchange as well as gold. South Africa, which accounts for 70% of the free world production of gold, also, and understandably, has a gold reserve requirement very similar to our own present requirement. In every other instance, among the leading financial powers of the free world, gold holdings are unequivocally available for international use.

Conclusion

H.R. 3818 represents an essentially modest step to bring our gold reserve requirement into line with present needs. Its implications for our economic well being are, however, important.

You will find, I am sure, that this bill has broad support among informed banking and financial circles in this country. As a further indication of our firm intent to defend the gold value of the dollar against any potential pressure, it will help reinforce confidence in the dollar abroad, and I am certain it will be warmly welcomed by foreign monetary officials. I urge that you promptly report the bill favorably to the House and speed its passage.

RATIO OF GOLD CERTIFICATE RESERVES TO DEPOSIT AND FEDERAL RESERVE NOTE LIABILITIES COMBINED

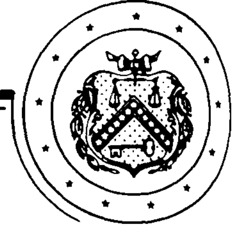
Year End	Percent	Year End	Percent
1932	62.9	1949	54.7
1933	63.8	1950	49.4
1934	70.8	1951	46.4
1935	77.6	1952	46.2
1936	80.1	1953	44.5
1937	79.9	1954	45.1
1938	83.7	1955	44.4
1939	86.7	1956	44.6
1940	90.8	1957	46.3
1941	90.8	1958	42.1
1942	76.3	1959	39.9
1943	62.6	1960	37.4
1944	49.0	1961	34.8
1945	41.7	1962	31.8
1946	43.5	1963	29.7
1947	48.3	1964	27.5
1948	48.9		

Office of the Secretary of the Treasury
Office of Debt Analysis

February 1, 1965

Source: Federal Reserve Bulletin

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 1, 1965

FOR IMMEDIATE RELEASE

TREASURY DECISION ON SYNTHETIC DIAMOND POWDER OR DUST UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of synthetic diamond powder or dust from Ireland, sold by Industrial Grit Distributors (Shannon) Ltd., County Clare, Ireland. A notice of intent to close this case with a determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Synthetic diamond powder or dust is used in the manufacture of diamond grinding wheels. It is produced in two general qualities, depending on whether it is for use in metal-bonded or resin-bonded grinding wheels. The imported material is almost wholly of the quality for use in resin-bonded wheels.

Appraisement of the above-described merchandise from Ireland is being withheld at this time.

The dollar value of imports of the involved merchandise received during the period June 1963 through September 1964 was approximately $1,100,000.

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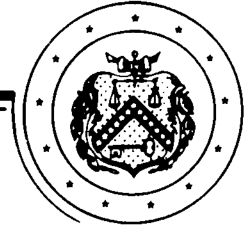
TREASURY DEPARTMENT



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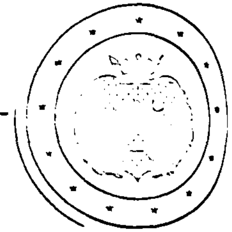


WASHINGTON, D.C.

FOR RELEASE A.M. NEWSPAPERS,
Tuesday, February 2, 1965.

February 1, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 5, 1964, and the other series to be dated February 4, 1965, which were offered on January 27, were opened at the Federal Reserve Banks on February 1. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 6, 1965		:	182-day Treasury bills maturing August 5, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.023 a/	3.865%	:	97.998	3.960%
Low	99.016	3.893%	:	97.992	3.972%
Average	99.017	3.888% 1/	:	97.994	3.968% 1/

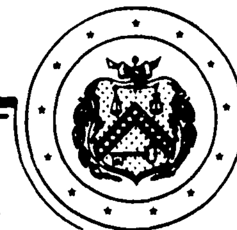
a/ Excepting 2 tenders totaling $3,350,000
77% of the amount of 91-day bills bid for at the low price was accepted
30% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 17,250,000	$ 16,343,000	:	$ 33,855,000	$ 4,655,000
New York	1,540,864,000	777,009,000	:	1,812,141,000	836,350,000
Philadelphia	24,703,000	12,703,000	:	16,657,000	5,304,000
Cleveland	23,562,000	22,362,000	:	98,304,000	34,006,000
Richmond	11,957,000	11,957,000	:	10,651,000	5,441,000
Atlanta	31,061,000	22,546,000	:	17,738,000	11,239,000
Chicago	285,060,000	128,864,000	:	277,418,000	58,823,000
St. Louis	53,882,000	47,137,000	:	12,722,000	6,822,000
Minneapolis	22,247,000	13,902,000	:	8,819,000	3,619,000
Kansas City	28,657,000	25,657,000	:	19,014,000	14,229,000
Dallas	29,754,000	19,754,000	:	12,272,000	6,712,000
San Francisco	156,017,000	103,163,000	:	151,039,000	17,359,000
TOTALS	$2,225,014,000	$1,201,397,000 b/		$2,470,630,000	$1,004,559,000 c/

b/ Includes $229,332,000 noncompetitive tenders accepted at the average price of 99.017
c/ Includes $90,643,000 noncompetitive tenders accepted at the average price of 97.994
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 3.98%, for the 91-day bills, and 4.11%, 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 period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

TREASURY DEPARTMENT



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Boston	$ 17,250,000	$ 16,343,000	:	$ 33,855,000	$ 4,655,000
New York	1,540,864,000	777,009,000	:	1,812,141,000	836,350,000
Philadelphia	24,703,000	12,703,000	:	16,657,000	5,304,000
Cleveland	23,562,000	22,362,000	:	98,304,000	34,006,000
Richmond	11,957,000	11,957,000	:	10,651,000	5,441,000
Atlanta	31,061,000	22,546,000	:	17,738,000	11,239,000
Chicago	285,060,000	128,864,000	:	277,418,000	58,823,000
St. Louis	53,882,000	47,137,000	:	12,722,000	6,822,000
Minneapolis	22,247,000	13,902,000	:	8,819,000	3,619,000
Kansas City	28,657,000	25,657,000	:	19,014,000	14,229,000
Dallas	29,754,000	19,754,000	:	12,272,000	6,712,000
San Francisco	156,017,000	103,163,000	:	151,039,000	17,359,000
TOTALS	$2,225,014,000	$1,201,397,000 b/		$2,470,630,000	$1,004,559,000 c/

Includes $229,332,000 noncompetitive tenders accepted at the average price of 99.017
Includes $90,643,000 noncompetitive tenders accepted at the average price of 97.994
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 3.98%, for the 91-day bills, and 4.11%, 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 period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE: February 2, 1965

FRED B. SMITH NAMED
ACTING GENERAL COUNSEL

Treasury Secretary Douglas Dillon today said he had named Fred Burton Smith as Acting General Counsel of the Treasury Department. The appointment became effective February 1, 1965, following the departure of G. d'Andelot Belin who resigned last week to resume private law practice in Boston.

Mr. Smith has served as Deputy General Counsel since April 12, 1962. Before that he was an Assistant General Counsel, having been appointed to that post on October 15, 1959. He joined the Office of the General Counsel in 1943 and has been with the Treasury continuously since.

Mr. Smith was born in Syracuse, New York, on January 27, 1915. He studied at public schools in central New York and was graduated from Princeton University with an A.B. degree in 1937. He was graduated from Syracuse University College of Law in 1940 with the degree of LL.B. In the same year he was admitted to practice in New York State and for three years thereafter was associated with the firm of Hancock, Dorr, Ryan & Shove of Syracuse.

In his service with the Treasury, he has been concerned primarily with legal matters in the monetary, international finance and trade fields. He was active in the negotiations leading to the creation of the Inter-American Development Bank and those leading to the Group of Ten's General Arrangements to Borrow. He has also served as a member of other United States delegations to a number of international conferences.

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D-1488

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY
ON INCREASING THE RESOURCES OF THE
FUND FOR SPECIAL OPERATIONS OF THE
INTER-AMERICAN DEVELOPMENT BANK
February 3, 1965 - 10:00 A.M.

Mr. Chairman and Members of the Committee:

I am happy to appear again before this Committee in support of the proposed expansion in the resources and the responsibilities of the Fund for Special Operations of the Inter-American Development Bank. The legislation before you is the same as that upon which I recommended favorable action last August. It would authorize the United States to contribute $250 million per year during fiscal 1965, 1966 and 1967 to the expanded FSO. The Latin American countries as a group would contribute a total of $50 million per year over the same period in their own currencies. These new resources are vital to continued operations of this financial arm of the Alliance for Progress; existing resources will be fully committed in a matter of months. I, therefore, urge early and favorable action by the Congress.

The Fund for Special Operations is the window of the Bank which, in appropriate circumstances, makes loans on repayment terms that are substantially easier than loans made

from the Ordinary Capital resources of the Bank. The Bank, in the past, has also provided loans on easy repayment terms from the Social Progress Trust Fund (SPTF), which the Bank administers on behalf of the United States. But the SPTF's resources, amounting to $525 million financed entirely by the United States, will shortly be fully committed -- and no further U.S. contribution will be made to this fund. Rather, the expanded FSO will take over the SPTF's lending activities in the fields of land settlement, housing, education, water and sanitation facilities. I do not anticipate any diminution in the importance which the Bank attaches to lending for these essential social purposes, and have made this clear in an exchange of letters with Mr. Reuss.

Further delay on the part of the United States would certainly be disruptive to the essential operations of this key institution of the Alliance for Progress. More than this, it would also -- justifiably, I think -- give rise to the feeling on the part of the Latin American members of the Bank that the United States was failing to meet the reasonable expectation of financial support for the Bank compatible with our oft expressed support for the Alliance for Progress.

By the terms of the Resolution adopted at the meeting of the Bank's Governors in Panama in April of last year,

the proposal cannot come into effect unless and until the United States acts.

The Resolution provides that the agreement to increase the Bank's resources will only become effective after fourteen countries with shares in the increase amounting to $860 million of the $900 million total have completed action to approve the increase. Eighteen of the other nineteen countries have already taken the necessary action and all that is now necessary is action by the United States.

It had originally been expected that the increase would take effect on December 31, 1964. This date has now been missed and prompt action is necessary, as otherwise the Bank will be out of funds for these important programs after next April. President Johnson stressed the need for prompt action in his aid message. He said:

> "To strengthen multi-national aid, and further to strengthen the Alliance for Progress, I urge the Congress promptly to approve the three-year authorization of $750 million which constitutes the United States contribution to the Fund for Special Operations of the Inter-American Development Bank."

Mr. Chairman, it will save the time of this Committee, if I do not go over in these opening remarks the same ground covered in my opening statement of August last year. Instead, I am attaching to this statement my earlier remarks and some

materials bringing the information up to date. I should mention one relatively minor difference from my presentation last August. Following the appropriation by Congress of each year's installment, we would make the annual U.S. contribution in the form of a letter of credit instead of in the form of non-interest bearing notes. This procedure is being increasingly adopted in connection with major domestic federal programs. As in other cases, this procedure will bring budgetary expenditures under the program more closely into line with actual use of the funds by FSO. Existing non-interest bearing notes from earlier contributions would, of course, be unaffected.

The IDB and the Alliance for Progress are moving forward; the self-help concept is taking hold. Moreover, we have, in the Inter-American Committee for the Alliance for Progress (CIAP), the institutional framework within which basic problems can be faced and resolved. Expansion of the Fund for Special Operations will sustain and reinforce the forward momentum that is starting to change the face of the other American Republics. I strongly urge the Committee and the Congress to take forward-looking action by approving the proposal before you.

Annex 1

STATUS OF FUNDS IN FSO AND SPTF
AS OF DECEMBER 31, 1964

	$	Local	Total
FSO			
Total resources contributed	184.5	34.5	219.0
Against which, loan commitments through 12/31/64	146.5	24.4	170.9
Balance available for commitment	38.0	10.1	48.1
SPTF			
Total resources contributed	525.0	--	525.0
Against which, loan commitments through 12/31/64	450.0	--	450.0
Balance available for commitment	75.0	--	75.0
Combined FSO/SPTF			
Total resources contributed	709.5	34.5	--
Against which, loan commitments through 12/31/64	596.5	24.4	--
Balance available for commitment	113.0	10.1	123.1
Less minimum reserve for contingencies	25.0	2.0	27.0
Less estimated net amount of dollars utilized for administrative expenses and technical assistance	7.0	--	7.0
Balance available for commitment	81.0	8.1	89.1

* * * * * *

	$	Local	Total
Projected annual lending rate	250	50	300
Projected monthly lending rate	21	4	25
Estimated number of months beyond Dec. 1964 for which lending could be maintained at projected rate with present resources	Approx. 4 (i.e., through April '65)	Approx. 2 (i.e., through Feb. '65)	Approx. 3 (i.e., through mid-March '65)

INTER-AMERICAN DEVELOPMENT BANK

Summary of Loans Approved through December 31, 1964

(in millions of dollars)

	1961	1962	1963	1964	Cumulative to date
Approved loans: 1/					
Ordinary Resources	122.9	79.1	178.6	164.0	544.6
Fund for Special Operations	47.2	41.8	32.5	49.4	170.9
Social Progress Trust Fund	112.1	204.9	47.1	85.9	450.0
TOTAL	282.2	325.8	258.2	299.3	1,165.5
* * * * * *					
FSO/SPTF Combined	159.3	246.7	79.6	135.3	620.9

1/ Net of cancellations

NOTE: Totals may not add due to rounding

INTER-AMERICAN DEVELOPMENT BANK
DESCRIPTIONS OF FUND FOR SPECIAL OPERATIONS LOANS
MAY 1 - DECEMBER 31, 1964

ARGENTINA — $2 million loan
WATER SUPPLY AND SANITATION — signed October 7, 1964

This loan was granted to the Administracion General de Obras Sanitarias de la Nacion, a public entity, to help finance the improvement of the water supply systems of two towns in the province of Buenos Aires. An additional $3.5 million for this project is being financed from the Social Progress Trust Fund.

BOLIVIA — $3.5 million loan
ELECTIRC POWER — signed July 24, 1964

This loan was extended to the Republic of Bolivia to contribute to the financing of the Corani hydro-electric project.

BRAZIL — $7 million loan
WATER SUPPLY SYSTEM — approved December 30, 1964

This loan is being borrowed by the Banco do Estado da Guanabara, S.A., the financial agency of the State of Guanabara, and will help finance the project being carried out by the Superintendencia de Urbanizacao e Saneamento to supply water to 80 percent of the population of Rio de Janeiro by 1966.

GUATEMALA — $235,000 loan
TECHNICAL ASSISTANCE — signed August 26, 1964

The Republic of Guatemala was granted this loan to help finance studies relating to the improvement of the water supply system in Guatemala City.

HONDURAS — $200,000 loan
TECHNICAL ASSISTANCE — approved November 19, 1964

This loan was extended to the Republic of Honduras to finance studies relating to the installation of a pulp and paper plant.

MEXICO $9.8 million loan
AGRICULTURE signed October 30, 1964

This loan was extended to the Nacional Financiera, S.A., a public entity, to assist in financing nine independent irrigation systems in the Lerma-Chapala-Santiago river basin.

NICARAGUA $4.5 million loan
AGRICULTURE approved December 30, 1964

This loan was made to the Banco Nacional de Nicaragua to help finance a livestock development program. The program will consist of the extension of credits to cattle raisers to be used for a wide range of purposes.

PANAMA $1 million loan
INDUSTRY approved December 21, 1964

The Banco Nacional de Panama was granted this loan to help finance an industrial development program in which medium and long-term credits will be made available to private enterprises.

PARAGUAY $4 million loan
INDUSTRY signed August 17, 1964

This loan was granted to the Banco Nacional de Fomento, a public entity, for relending to promote an industrial development program in Paraguay.

PERU $475,000 loan
TECHNICAL ASSISTANCE signed November 6, 1964

This loan to the Republic of Peru is to help finance studies for building highways between four towns.

URUGUAY
AGRICULTURE

$3.6 million loan
approved November 5, 1964

This loan was approved for the Cooperativa Nacional de Productos de Leche to assist in financing the expansion of the dairy industry. The borrower is a cooperative which manufactures dairy products and is responsible for supplying all of the pasteurized milk of the city of Montevideo.

CABEI
INDUSTRY AND INFRASTRUCTURE

$8.2 million loan
approved December 20, 1964

This loan was extended to the Central American Bank for Economic Integration to help finance industrial and infrastructure projects of a regional nature in Central America.

INTER-AMERICAN DEVELOPMENT BANK
DESCRIPTIONS OF SOCIAL PROGRESS TRUST FUND LOANS
MAY - DECEMBER 1964

ARGENTINA — $3.5 million loan
WATER SUPPLY AND SANITATION — signed October 7, 1964

The Bank granted this loan to the Administracion General de Obras Sanitarias de la Nacion to finance the improvement of the water supply systems of two suburbs of Buenos Aires, Auellaneda and Lanus. About 800,000 persons living in these two suburbs will benefit from the project.

BOLIVIA — $325,000 loan
ADVANCED EDUCATION — signed May 7, 1964

The Bank granted this loan to the Republic of Bolivia in order to install 18 laboratories and a technical library at the Bolivian Technological Research Institute.

BRAZIL — $4.0 million loan
ADVANCED EDUCATION — approved July 30, 1964

This loan was granted to the Government of Brazil to finance the acquisition of equipment and library material relating to the basic sciences.

BRAZIL — $2.7 million loan
AGRICULTURE — approved July 30, 1964

This loan was granted to the Superintendencia do Desenvolvimento for relending to agricultural cooperatives and associated farmers.

CHILE — $5.0 million loan
HOUSING — signed August 12, 1964

The Caja Central de Ahorros y Prestamos was granted this loan in order to finance the construction of about 2,500 houses for families of low income through the savings and loan system.

CHILE
ADVANCED EDUCATION

$1.25 million loan
signed October 31, 1964

The Bank granted this loan to the Corporacion de Fomento de la Produccion to finance a curriculum of public health and related matters at the University of Chile.

CHILE
ADVANCED EDUCATION

$1.05 million loan
signed November 2, 1964

This loan was granted by the Bank to the Corporacion de Fomento de la Produccion to finance the expansion of the College of Physical Sciences and Mathematics at the Catholic University of Chile.

COLOMBIA
AGRICULTURE

$7.0 million loan
signed June 10, 1964

The Fondo de Desarrollo y Diversificacion de Zonas Cafeteras y Federacion Nacional de Cafeteros borrowed these funds to provide for agricultural diversification in the coffee-producing areas of the Department of Caldas.

COLOMBIA
HOUSING

$7.5 million loan
approved October 8, 1964

The Bank granted this loan to the Instituto de Credito Territorial to finance the construction of houses for low-income families.

COLOMBIA
HOUSING

$2.5 million loan
approved December 30, 1964

The Bank granted this loan to the Instituto de Credito Territorial de Colombia, the agency in charge of the promotion and construction of housing programs in the nation, to help finance the construction of 1,400 houses for members of a labor organization. The loan proceeds will help finance the construction of 1,120 houses and 280 apartments, and will benefit about 9,800 people.

COSTA RICA $4.0 million loan
ROADS signed June 2, 1964

The Bank made this loan to the Government of Costa Rica to help finance the construction and improvement of 50 feeder roads with a total length of 392 miles. Completion of the program is expected to lead to an improvement in the standard of living of low-income farmers in this predominantly agricultural country.

COSTA RICA $140,000 loan
WATER SUPPLY AND SANITATION signed July 2, 1964

This loan to the Servicio Nacional de Acueductos y Alcantarillado was made to finance studies regarding the improvement of the sewerage system of San Jose.

COSTA RICA $1.3 million loan
AGRICULTURE approved October 1, 1964

This loan was made to the Instituto de Tierras y Colonizacion to finance a colonization project for 600 low-income farmers in Limon Province.

COSTA RICA $3.6 million loan
HOUSING approved December 30, 1964

The Bank granted this loan to the Instituto Nacional de Vivienda y Urbanismo to help finance the construction of 2,816 houses for low-income families in Costa Rica. The houses will be built over a two-and-a-half year period in three sub-projects.

DOMINICAN REPUBLIC $1.05 million loan
WATER SUPPLY AND SANITATION signed August 7, 1964

The Bank granted this loan to the Dominican Government to finance the installation and improvement of water supply systems in five localities.

DOMINICAN REPUBLIC $900,000 loan
ADVANCED EDUCATION approved December 30, 1964

This loan was granted to the University of Santo Domingo to help finance laboratory equipment and bibliographic material for the University.

ECUADOR — $268,000 loan
WATER SUPPLY AND SANITATION — signed August 7, 1964

The Bank granted this loan to the Municipalidad de Guayaquil to finance studies relating to the improvement of the sewerage system of Guayaquil.

EL SALVADOR — $4.4 million loan
WATER SUPPLY AND SANITATION — approved October 1, 1964

The Administracion Nacional de Acueductos y Alcantarillados was granted this loan to finance the construction, improvement, and expansion of water supply and sewerage systems and related sanitary works in over 100 towns. The projects are expected to benefit more than half a million persons in El Salvador.

GUATEMALA — $3,020,000 loan
WATER SUPPLY AND SANITATION — approved December 30, 1964

The Bank granted this loan to the Instituto de Fomento Municipal of Guatemala to help finance water supply works in 23 communities and sewerage works in another 7 communities of the country. The program will benefit about 150,000 people.

HONDURAS — $400,000 loan
WATER SUPPLY AND SANITATION — signed October 23, 1964

This loan was granted to the Servicio Autonomo Nacional de Acueductos y Alcantarillados to finance the improvement and expansion of water supply systems of six cities.

NICARAGUA — $5.25 million loan
HOUSING — approved December 31, 1964

This loan was made to the Instituto Nicaraguense de la Vivienda to help finance the construction of 3,774 housing units for low-income families in Nicaragua.

PARAGUAY — $3.4 million loan
HOUSING — approved September 10, 1964

This loan to the Republic of Paraguay was made to finance the construction of about 3,800 houses for low-income families.

PERU — $3.5 million loan
AGRICULTURE — signed November 6, 1964

This loan was made to the Government of Peru to finance construction of seven related irrigation projects and their access roads in the sierra region of the country.

PERU — $2.5 million loan
ADVANCED EDUCATION — signed November 5, 1964

The Bank made this loan to the Universidad Nacional de Ingenieria to finance university improvement and expansion.

VENEZUELA — $10.0 million loan
WATER SUPPLY AND SANITATION — approved December 30, 1964

This loan was granted to the Division de Acueductos Rurales to help finance water supply works in about 300 rural communities. The project will benefit about 275,000 people. It is a new stage of the National Rural Water Supply Program which Venezuela initiated in 1961 with the aid of another $10 million loan.

Annex 4

TREASURY DEPARTMENT

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
OF THE HOUSE OF REPRESENTATIVES
(SUBCOMMITTEE ON INTERNATIONAL FINANCE)
AUGUST 11, 1964, 10:00 A.M.

Mr. Chairman and Members of the Committee:

I am happy to appear before you today in connection with the participation of the United States in the proposed expansion of the Fund for Special Operations (FSO) of the Inter-American Development Bank (IDB). This represents another important step forward in United States support for the Bank -- and for the Alliance for Progress.

The legislation before you would authorize the Secretary of the Treasury as U. S. Governor of the IDB to vote in favor of an increase equivalent to $900 million in the resources of the FSO and would authorize the appropriation without fiscal year limitation of $750 million as the U. S. share of this increase. The payments would be made in three annual installments, of $250 million each, in fiscal 1965, 1966 and 1967, and would be in the form of non-interest bearing notes rather than cash. Separate appropriation legislation would be sought for each year's payments. The

Latin American members of the IDB would contribute $50 million a year in their own currencies. The proposal would be effective when approved by 14 countries with total contributions amounting to the equivalent of $860 million.

Increased U. S. participation in the FSO under this proposal would be in lieu of any further contributions to the Social Progress Trust Fund.

The National Advisory Council on International Monetary and Financial Problems has considered this proposal and has issued a Special Report strongly recommending Congressional approval. Copies of the Report are before you.

Background of the Proposal

I would like to recall briefly, Mr. Chairman, the history and structure of the Inter-American Development Bank and the scope of the United States' participation in this institution and its activities. The IDB came into legal existence on December 30, 1959 and began operations in the fall of 1960. Even though the IDB was established prior to the Act of Bogota and the Charter of Punta del Este, it has become the key link in the emerging pattern of close cooperation between the United States

and the Latin American republics. It is "the Bank of the Alliance" and is clearly fulfilling this role with great success. As the principal financial institution of the Inter-American system, the IDB constitutes one of the most essential operating elements of our concerted drive toward economic and social development in Latin America. All of the countries of Latin America are members of the IDB, with the sole exception of Cuba, which is no longer eligible to join.

The Bank has up to now carried on its financing operations through three "windows." The first of these, Ordinary Capital, provides development funds on conventional terms in much the same manner as the World Bank. It commenced operations with governmental subscriptions but now obtains its funds from private financial markets in the same manner as does the World Bank. The second "window" of the Bank is its Fund for Special Operations, designed to offer financing where, for balance of payments or other reasons lending on conventional terms is not appropriate. The FSO's loans on easy repayment terms are made entirely from resources provided by the United States and the Latin American members of the Bank. In addition, since mid-1961 the Bank has acted as Administrator of the Social Progress Trust Fund (SPTF),

which amounts to $525 million, all of which has been provided by the United States. Loans from the SPTF are repayable on easy terms and are made for four important areas of social development -- water supply and sanitation, advanced education, housing, and land settlement and improved land use.

It is with the second of these windows, the Fund for Special Operations, that we are concerned today. The initial resources of the FSO amounted to $146 million, of which the United States provided $100 million and the Latin American countries provided $46 million. Last year, as an interim measure, the member governments agreed on a $73 million increase in FSO resources, $50 million from the United States and $23 million from the Latin American members. Thus the total resources of the FSO now amount to $219 million, of which the United States has contributed $150 million. Payment of these contributions by members was made one-half in U. S. dollars and one-half in national currency -- which in our case meant that our entire contribution was in dollars. All installments have been fully paid by all member countries.

By July 31, 1964, $136 million of FSO resources had been committed for loans and technical assistance. Further, the

management of the Bank estimates that the remainder of the Fund's resources, approximately $85 million, will be fully committed by the spring of next year. By July 31, 1964 only $114 million remained uncommitted in the SPTF and it is also expected to be fully committed in the near future, that is, sometime next spring.

Reasons for the Proposal

After approximately two years of operations with its three windows, the IDB's Board of Governors concluded that the Bank had reached a point in its development at which it would be appropriate to consider the simplification and strengthening of its structure. Moreover, it was evident that the scope and importance of the financing operations carried on by the Bank on an easy repayment basis would soon require major additions to the amount of capital available for these purposes. Accordingly, at the Fourth Annual Meeting in Caracas, Venezuela, in April 1963, the Governors asked the Executive Directors to prepare a study of the future relationships of the FSO to other activities of the Bank and also of the sufficiency of the Fund's resources.

The study occupied about a year, and at the Annual Meeting held in Panama this past April, the Executive Directors reported to the Governors recommending an expansion of the resources of the FSO and a broadening of its

functions to include those previously carried on by the SPTF. The recommendation assumed that, concurrent with the expansion of the FSO, the United States would discontinue further contributions to the SPTF. I have made it clear to the other Governors that this would in fact be the case. Thus, the Bank's existing three windows would be reduced to two. One -- the Ordinary Capital, obtaining its funds in the private capital markets -- would make loans on conventional repayment terms; the other -- the FSO, obtaining its funds from member contributions -- would make loans on easy repayment terms. This arrangement would be quite similar to that of the World Bank and IDA.

The advantage of such a consolidation of functions within the Bank is readily apparent. Administration will be more efficient and economical. The pattern of loan terms offered by the Bank will be more uniform, and the countries borrowing from the Bank will find that loan procedures are simpler and more understandable. From the United States point of view, the expansion of the FSO to include the functions of the SPTF -- and the termination of further contributions to the SPTF -- means that funds hitherto provided entirely by the United States will hereafter be provided

in part by the Latin American countries.

Under the proposal of the Executive Directors, which the Bank's Governors have unanimously referred to their governments for appropriate legislative action, the member governments of the Bank would contribute $300 million per year to the FSO in their own national currencies in each of the fiscal years 1965, 1966, and 1967. The United States share of this annual contribution would be $250 million, all payable in non-interest bearing notes which would not be cashed until the Bank required the funds for disbursements. The Latin American members of the Bank would contribute $50 million each year in their own national currencies.

For comparison purposes the combined totals of past contributions to the FSO and SPTF have been as follows (in millions of dollars):

Calendar Year	United States	Other Countries
1961-62	$494	$46
1963	0	0
1964	181	23

1961 and 1962 are lumped together since the United States made a contribution of $394 million to the SPTF in 1961 with the understanding that it would cover both 1961 and 1962. Contributions that had originally been planned for 1963 were actually approved by the Congress -- and the resources made available to the Bank -- in January 1964.

From these totals it can be seen that the $250 million annual contribution proposed for the United States closely approximates our annual contributions in 1961 and 1962 and exceeds our 1964 contribution by 38%. On the other hand, the contributions by the Latin American countries will be considerably more than twice their previous annual contributions.

In considering the need for funds to be lent on easy repayment terms, the Bank's Board of Executive Directors has taken account of Latin America's minimum needs for external funds to implement the Charter of Punta del Este, of the development programs which have been prepared by individual countries, of the magnitude and types of loan applications and inquiries made to the Bank, and of the Bank's capacity for processing loan applications and controlling disbursements. The Bank has also taken account of the balance-of-payments and external debt problems of Latin America and the continuing need -- as borne out by the experience of other lending institutions -- for credit on special terms such as can be offered by the FSO. Taking account of these varied consideration the Bank regards a lending level equivalent to $300 million a year, for loans on easy repayment terms, as desirable and

feasible in order for it to meet its minimum responsibilities under the Alliance for Progress.

With the combined availabilities of the FSO and the SPTF the Bank succeeded in achieving almost a $250 million annual lending rate in the year 1962. With the resources now being proposed, the Bank will be able to reach and to maintain a slightly higher lending level. Moreover, with the assured availability of funds for a three-year period, the Bank will be able to avoid sharp year to year variations in the level of lending -- such as have occurred over the past few years because of uncertainties in the timing and amount of new funds provided to the FSO and SPTF. Loans from the two funds aggregated $164 million in 1961, rose to $246 million in 1962, and then fell to $80 million in 1963. It seems clear that the efficiency of the Bank's operations and its relationships with borrowers would be greatly improved by the approval of the three-year program now proposed.

Proposed Operations of the Expanded FSO

The operations of the expanded FSO will follow closely many of the patterns and practices successfully established in the past by the separate operations of the FSO and the SPTF.

The expanded FSO will continue to provide essential financial assistance for high-priority development projects in the economies of the Latin American members of the IDB. The type of projects which will be financed include -- in addition to such basic projects as roads, dams, water facilities and industrial development projects -- programs in the fields of low-income housing, improved land utilization, land settlement schemes, and agricultural credit programs. It is also expected that the Bank through the FSO will furnish assistance for the expansion of higher education facilities in Latin America by making loans to provide for the construction and equipment of facilities at universities and technical institutions. These loans will provide training in the technical and managerial skills so desperately needed if Latin America is to achieve meaningful development of its society and resources. Technical assistance loans and the financing of studies of basic sectors of the economy will also be provided.

In its administration of the proposed expanded FSO, the Bank will continue to take into account the institutional improvements which the borrowing country is undertaking, the specific steps initiated to achieve the success of the project

proposed for financial assistance from the FSO, the extent to which local contributions are made available for financing the project, and, lastly but perhaps most important of all, Mr. Chairman, the extent and effectiveness of the over-all self-help practices of the borrower in conformity with the principles established by the Charter of Punta del Este.

Through new institutional arrangements in the Bank, a senior official will advise the President of the Bank on the formulation and review of development objectives, policies, plans and programs. This official -- who will be a United States citizen -- and his staff will serve as the Bank's liaison with the Inter-American Alliance for Progress Committee (CIAP), the important new organ of Inter-American economic cooperation. This advisory office will coordinate the effective programming of the Bank's resources, and maintain close contact with other sources of foreign capital, including our own AID administration. The Bank's efforts to program its resources to achieve maximum results will be greatly assisted by the assured availability of funds for a three-year period, as now proposed.

Turning now, Mr. Chairman, to questions of operational procedure, there are two matters I would like to review briefly

with you. First, the question of loan terms for the expanded FSO. The Resolution to be voted on by the Board of Governors of the IDB does not specifically state the terms on which future loans from the expanded FSO are to be made. The Resolution states, however, that the Board of Executive Directors of the IDB "in establishing financing policies for the (FSO) shall take into consideration the policies which have guided the operations of the Social Progress Trust Fund I expect, therefore, that policy on loan terms would be generally comparable to present policies for the FSO and the SPTF.

On loans made by the SPTF interest rates of from 2 to 3-1/2 percent have been applicable, depending upon the nature of the project. Maturities have been from 20 to 30 years including a grace period with repayment of principal and interest in the currency of the borrower, but with provision for maintenance of value and with optional payment in U.S. dollars. The interest rates I have mentioned include a 3/4 percent per annum service charge which is payable in U.S. dollars. FSO loans have been made on basically similar terms although the interest rate has usually been 4 percent and there

is no separate service charge. Some loans made by the FSO have required payment of amortization and interest in the currencies lent.

The second matter I wish to review is the question of procurement policy. Previous U.S. contributions to the FSO have been available for world-wide procurement, while U.S. contributions to the SPTF were available only for U.S. procurement or procurement in other member countries of the IDB. Under this new proposal, the U.S. contribution to the expanded FSO will be available on the same basis as the SPTF procurement in the past, that is, only for the purchase of goods and services in the United States or from the country of the borrower; or in some cases, from other member countries of the Bank if such a transaction would be advantageous to the borrower. On the basis of past experience with the SPTF this would mean that well over 80 percent of future U.S. contributions to an expanded FSO would be utilized to finance U.S. exports.

Effect of Proposal on the U.S. Balance of Payments

This leads us directly to the matter of the effect of this proposal upon the balance-of-payments position of the United States. As I have indicated earlier, the entire U.S.

contribution to the expanded resources of the FSO will be in the form of non-interest bearing notes rather than cash and consequently will have no immediate impact upon our balance of payments. These notes will only be encashed later by the Bank as funds are required for disbursement. Consequently, the balance-of-payments impact of these transactions will not be reflected in our international accounts until the cash is paid over to the Bank -- well after the funds have been appropriated. And when the balance-of-payments effect is felt, the fact that over 80 percent of the expenditures from the U.S. contribution to the FSO will be made in the United States will mean that the impact of our contribution will be minimal.

Relationship to U.S. Bilateral Aid Policies

Both the manner in which the proposed contribution to the expanded FSO will be utilized, and the over-all policies of the IDB are fully in accord with the major policy guidelines established by Congress for the U.S. bilateral aid program. The availability of funds in the expanded FSO for the furtherance of Alliance objectives will be fully taken into account in the preparation of U.S. bilateral economic assistance programs to Latin American nations, as is the availability of funds from other international lending agencies. No funds to be provided

to the expanded FSO will be available to Communist bloc countries, as membership in the IDB is limited to Latin American nations, and Cuba has never joined the Bank and is no longer eligible for membership. With respect to the expropriation of private property without compensation, it should be noted that in no case has it been necessary to invoke the "Hickenlooper Amendment" in Latin America requiring the suspension of U.S. assistance. If circumstances should arise requiring such measures by the United States, parallel action could easily be taken in the Fund for Special Operations, since the U.S. vote of 42 percent is necessary to obtain the two-thirds majority that is required for favorable consideration of any loan made by the Fund for Special Operations.

Proposed Legislative Action

The proposed legislation for which favorable committee action is requested would: (1) authorize the Secretary of the Treasury as U.S. Governor of the IDB to vote in favor of the Resolution calling for a $900 million increase in the resources of the FSO and, upon adoption of the Resolution by the Board of Governors, to agree on behalf of the United States to a subscription of $750 million in accordance with the terms of the Resolution, (2) authorize the appropriation

without fiscal year limitation of $750 million, and (3) delete certain technical provisions in the existing language which limit the total of non-interest bearing notes which may be issued to the total of previous subscriptions and contributions to the Ordinary Capital and the FSO. This last action will permit substitution of notes for the full amount to be authorized under the proposed increase.

The Governors of the IDB contemplated that action would be taken by members by December 31, 1964, although the Executive Directors are authorized to extend the timetable as necessary. The need for the first installment of $250 million was taken into account in formulating the current FY 1965 budget and a formal appropriation request will be submitted upon approval by Congress of the authorizing legislation. Two further annual requests will be made in the normal manner for fiscal 1966 and 1967.

Conclusion

In conclusion, Mr. Chairman, I would like to reiterate that the Inter-American Development Bank is a vital part of the financial structure of the Alliance for Progress. Therefore it is most important that the Bank have not only adequate resources but also the structure most suitable to accomplish the tasks

facing it. The administrative advantages of simplifying the Bank's structure through consolidation of the operations of the FSO and the SPTF are clear. The boundaries between lending for social development and lending for economic development are indistinguishable and, therefore, provide no reason to continue the maintenance of separate financing sources which are inseparable in practice.

The FSO's resources will be exhausted in early 1965 and are in need of replenishment. The resources of the SPTF are also nearing exhaustion. This provides a desirable opportunity to terminate further contributions to the Social Progress Trust Fund and to make future contributions only to an expanded Fund for Special Operations. The proposed U.S. contribution of $250 million per year for the three years 1965, 1966 and 1967 will permit the Inter-American Development Bank to finance a level of lending on easy repayment terms which is appropriate to fulfill Alliance objectives and necessary if these objectives are to be met.

I urge that you act favorably on this bill.

Thank you, Mr. Chairman.

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on February 11, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 11, 1965. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, February 3, 1965

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 $ 2,200,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing February 11, 1965 , in the amount of $ 2,101,787,000 , as follows:

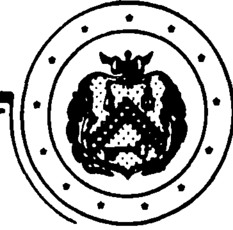
91 -day bills (to maturity date) to be issued February 11, 1965 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated November 12, 1964 , and to mature May 13, 1965 , originally issued in the amount of $ 1,000,317,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 1,000,000,000 , or thereabouts, to be dated February 11, 1965 , and to mature August 12, 1965

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 8, 1965. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three

TREASURY DEPARTMENT



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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE February 3, 1965

RESULTS OF TREASURY'S CASH OFFERING OF 4% NOTES

Reports received thus far from the Federal Reserve Banks show that subscriptions total $10,593 million for the offering of $2,170 million, or thereabouts, of 4 percent Treasury Notes of Series E-1966, due November 15, 1966. The total amount of subscriptions accepted is about $2,253 million.

The Treasury will allot in full, as provided in the offering circular, $537 million of subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Government Investment Accounts, and the Federal Reserve Banks, where the subscriber made the required certification of ownership of bonds maturing on February 15, 1965.

On subscriptions received subject to allotment, the Treasury will allot in full subscriptions up to $100,000 and other subscriptions will be subject to a 15 percent allotment with a minimum allotment of $100,000 per subscription. Subscriptions subject to allotment total $5,873 million from commercial banks for their own account and $4,183 million from all others.

Details by Federal Reserve Districts as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve Banks.

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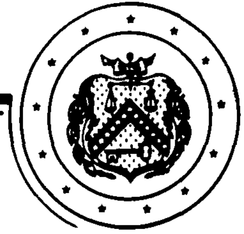
D-1491

TREASURY DEPARTMENT



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D-1491

TREASURY DEPARTMENT

WASHINGTON, D.C.
February 4, 1965

FOR IMMEDIATE RELEASE

UNITED STATES AND CHILE SIGN
$16,120,000 EXCHANGE AGREEMENT

Secretary of the Treasury Douglas Dillon and the Ambassador of Chile, Sergio Gutierrez, today signed a $16,120,000 Exchange Agreement between the United States and the Government and Central Bank of Chile.

The Agreement, which is effective for a one-year period, replaces one for $15 million signed in March 1964. Under the Exchange Agreement, Chile may request the United States Exchange Stabilization Fund to purchase Chilean escudos. Any escudos acquired by the United States Treasury would subsequently be repurchased by Chile with dollars.

The Agreement will assist Chile in maintaining orderly conditions in the foreign exchange markets as part of its program of economic stabilization and growth, and is designed to supplement the resources available under the $36 million stand-by arrangement announced by the International Monetary Fund on January 6, 1965.

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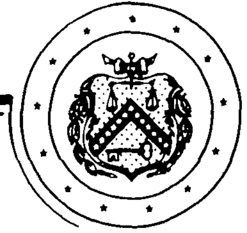
D-1492

TREASURY DEPARTMENT



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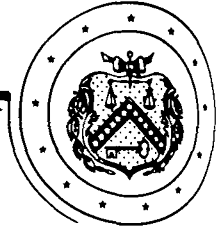

WASHINGTON, D.C.

February 4, 1965

FOR IMMEDIATE RELEASE

TREASURY DECISION ON CHLORINATED PARAFFIN UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of chlorinated paraffin from England, manufactured by Imperial Chemical Industries Limited, England. Promptly after the commencement of the antidumping investigation, price revisions were made which eliminated the likelihood of sales below fair value, and the United States firms which had complained of dumping withdrew their complaints.

A notice of intent to close this case with a determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Chlorinated paraffins are a series of waxes having a variety of uses, such as oil additives, plasticizer-extenders for plastics, etc.

Appraisement of the above-described merchandise from England is being withheld at this time.

The dollar value of imports of the involved merchandise received during the period May through July 1964 was approximately $5,400.

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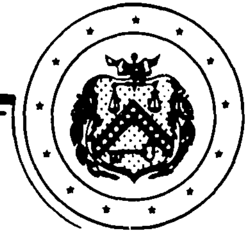
TREASURY DEPARTMENT



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"In no event would any solution be acceptable that involved a change in the fixed $35.00 price of gold. It is also essential that any changes in the system ensure that adequate international credit will continue to be available to finance the swings in trade typical of a growing world economy."

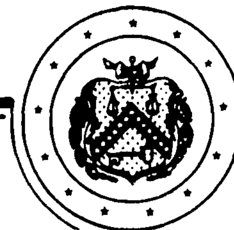
The Treasury today released the following statement

"President de Gaulle has recommended that the gold exchange standard, based on the use of dollars freely convertible into gold at $35.00 an ounce, and which has served the world well for 30 years be abandoned. He has proposed that instead we retreat to the full gold standard which collapsed in 1931 and which proved incapable of financing the huge increase of world trade that has marked the twentieth century.

"Studies of possible ways to improve the world monetary system have been underway for the past 18 months in the International Monetary Fund and in the Group of Ten countries making up the GAB. The new French proposal will presumably be introduced in these forums where a number of other proposals have been under study for some time. However, ~~a~~ move toward the restoration of the so-called gold standard, with all its rigidities and sharp deflationary consequences, would be quite ~~entirely~~ contrary to ~~removed from~~ the main stream of thinking among ~~the~~ governments participating in these studies.

~~The United States continues to feel strongly that a strengthened and improved international monetary system can only be built on the firm foundation of the present system~~

TREASURY DEPARTMENT



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oOo

D-1493

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY

REMARKS BY LELAND HOWARD
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE SIXTY-EIGHTH
NATIONAL WESTERN MINING CONFERENCE AND EXHIBITION
THE DENVER HILTON HOTEL, DENVER, COLORADO
SATURDAY, FEBRUARY 6, 1965, 2 P.M., M.S.T.

TREASURY'S GOLD AND SILVER POLICIES

Just two years ago, I had the privilege of addressing your Sixty-Sixth Conference. I have enjoyed few occasions more. So I consider myself twice blessed to be here again in this great and beautiful city -- where I have so many old friends whom I see far too seldom -- to talk to this distinguished gathering of representatives of one of our nation's most essential industries.

In his very gracious letter of invitation, Mr. Robert Palmer suggested it would be a particularly good time to discuss with you -- and I quote his words -- "the facts of life regarding silver and gold." Certainly it has been a long time since gold and silver have figured so prominently in public discussion and public policy as they have during recent years. And in this world of incredibly rapid change the facts of life regarding gold and silver -- like the facts of life regarding most other things -- cannot remain entirely unchanged, as new needs and new problems constantly arise.

But at the very outset, let me repeat what I said here two years ago -- and make very clear that the one cardinal fact of life regarding gold remains as immutable today as it has been since the day of its inception. Let me emphasize that our Government's policy on gold is essentially the same today as it was in 1934, when Congress passed the Gold Reserve Act. Our basic policy has been -- and remains -- one of centralizing the gold reserves of the country in the hands of the Government under the jurisdiction of the Treasury and maintaining a fixed price of $35 an ounce for gold. For our pledge to maintain that price, with every resource at our command, is the bedrock upon which the soundness of our dollar depends.

As you know, President Johnson in his Economic Message to the Congress about a week ago, recommended that the Congress -- and I quote -- "eliminate the arbitrary requirement that the Federal Reserve Banks maintain a gold certificate reserve against their deposit liabilities." This action, the Message pointed out,

would strengthen "our ability to carry out effective and responsible monetary and credit policies" and "place beyond any doubt... the availability of our gold stock for defense of the dollar."

Let me review with you very briefly the history of the gold certificate requirement and some of the factors behind the President's decision.

The requirement that Federal Reserve notes and deposits be backed by a prescribed proportion of gold originated in a period when gold was still in circulation domestically. This requirement, in good part, appears to have been designed to assure public confidence in the newly established Federal Reserve Banks and in Federal Reserve Notes. Another purpose, presumably, was to place some ultimate restraint upon the expansion of our money supply in the form of currency and bank deposits.

Today, however, the primary function of gold is to settle international deficits and surpluses, and the supply of money is effectively controlled by the Federal Reserve System in the broad interests of orderly, non-inflationary economic growth. These responsible authorities recognize various factors as important in determining its policy. The two most important are the need to preserve domestic price stability in an expanding economy and the need to deal when necessary with our balance of payments situation. Over the years, therefore, it has not been the arbitrary gold backing requirement, but other factors entirely which have determined our money supply -- in the process holding it well below the levels which would have been theoretically possible under the statutory gold reserve requirements against Federal Reserve Notes and deposits.

In 1945, there was clear recognition of the principle that changes in our money supply should be determined, not by the amount of our gold holdings, but by our domestic and international needs, when for the first time, it seemed possible that the gold reserve requirements might actually block the expansion of money credit essential to orderly wartime financing. The law at that time called for a 40 percent reserve of gold against notes and a 35 percent reserve of gold or lawful money against deposits. The overall ratio of actual gold holdings to these notes and deposits was about 50 percent. In those circumstances, the Congress cut the gold reserve requirement to the current 25 percent.

Today, besides the United States, only one of the world's leading industrial countries - Belgium - has any clear legal link between their gold reserves and the note and deposit liabilities of their central bank. Switzerland has a similar requirement,

but only against notes. The others either have no gold reserve requirement or have suspended its application for many years; moreover, of the country that does have requirements more or less similar to ours, those requirements have not served over time as a limiting factor upon money supply. In this country, as in the United States, it is the requirements of a sound monetary policy -- not of a mechanical gold reserve formula -- that sets the limits on the actual money supply.

As I said earlier, gold today plays its primary role in the international payments system, where it still serves as the ultimate means of settling international deficits and surpluses. The United States, as you know, has for too many years run balance of payments deficits which have led to substantial declines in our gold stock. We have in recent years reduced these deficits, and last year we came very near to stopping our net gold losses altogether. But while we have been making progress in these respects, and are determined to bring our international accounts fully into balance, the fact remains that we have had international deficits and gold losses for some time -- and, despite our efforts, we must be prepared to face the prospect of further gold losses until international equilibrium is fully restored.

That situation has, from time to time in the past, led some observers to suggest that foreign holders of dollars would be reassured, and their confidence in the dollar reinforced, if the full amount of our gold stock were made more clearly available to settle our international accounts. They have noted that the 25 percent gold cover requirement "ties up" nearly $13 billion of our gold.

The fact is that President Johnson -- and President Kennedy before him -- have made it abundantly clear that our full gold stock stands behind the dollar internationally, and have pointed out that the 25 percent requirement may be suspended. William McChesney Martin, Chairman of the Federal Reserve's Board of Governors, has also made it clear that the requirement would in fact be suspended, if necessary.

Nevertheless, needless questions will arise so long as there is a need to rely upon powers for suspension designed for temporary periods rather than longer-run needs. It is against that background that the Joint Economic Committee of the Congress and others have in the past recommended that the 25 percent requirement be entirely abolished.

Beyond these international considerations, it is now quite apparent that the continued growth and health of our domestic economy as well requires the abolition of an anachronistic and arbitrary limit upon our money supply. The sustained economic

expansion, with stable prices, that we have every reason to expect throughout this year and beyond will need to be supported by a proper and disciplined growth in money and credit. But as President Johnson pointed out in his Economic Message, "this growth, as it is reflected in Federal Reserve note and deposit liabilities, could easily absorb -- within two years or less, and without the outflow of a single ounce of gold -- the present operating margin over the 25 percent 'gold cover' required by existing law."

At the end of last year, Federal Reserve notes in circulation totalled $35.3 billion -- and Federal Reserve deposit liabilities totalled $19.5 billion. Together, these Federal Reserve liabilities required a gold certificate reserve of $13.7 billion, thus using all but $1.4 billion of the gold certificates issued to the Federal Reserve against the Treasury gold stock. Since January 1st, sales to foreigners have cut the Treasury gold stock by $300 million, and we can expect further losses.

In terms of ratios, gold certificate holdings on December 31, 1964, had dropped to 27.5 percent of the note and deposit liabilities. This meant a decline of 2.2 percentage points in the ratio for the year -- and yet for the year our net loss of gold to foreigners was only $125 million. Thus, the decline in the ratio last year was almost entirely the result of domestic economic needs for more money and bank credit and of the expansion in currency that normally accompanies rising trade and business turnover.

It is against that background that President Johnson has recommended the elimination of the 25 percent gold cover requirement on Federal Reserve deposits to preclude any unnecessary doubts and questions over our ability to make our gold fully available in defense of the dollar in international markets, and to provide for adequate, but not excessive, monetary growth at home. This proposal would free almost $5 billion of gold from the present requirement. At the same time, it would preserve intact the present requirement against Federal Reserve notes -- thus helping to emphasize the close link that exists between gold and the dollar.

So much for gold. Now turning to silver, we have seen in recent years an increasing worldwide demand for silver for industrial, professional and artistic use relative to new supplies reaching the market. This is in marked contrast to the situation existing in 1933 and 1934 when the Treasury embarked on its massive silver purchase program.

In 1933, as you know, the United States embarked upon a silver purchase program which had for its main purpose the elimination of large stocks of silver from the market place and the subsequent firming of price. The program was carried out through two sets of laws, one relating to the purchase of newly mined domestic silver and the other to the purchase of foreign and secondary silver.

The law relating to the purchase of foreign and secondary silver was the Silver Purchase Act of 1934. Purchases under this Act were not mandatory -- they were called for only when deemed "in the public interest." Over two billion one hundred million ounces were purchased under this Act between 1934 and 1942. However, after 1942, no Secretary of the Treasury deemed it to be in the public interest to purchase additional foreign or secondary silver. The fact is there was very little silver available for purchase.

The proclamations and acts relating to the purchase of newly mined domestic silver made it mandatory that the Mint purchase all the newly mined silver offered to it. Under these proclamations and acts, we purchased an additional 884 million ounces of silver and, as you well know, the market price of silver was such for many years that it paid the producers to deliver all of their production to the mints.

Three billion ounces of silver, therefore, were purchased by the United States during the period 1933 to early 1959 under these purchase programs at an average price of 58.7 cents per ounce. Needless to say, the price of silver did firm, usually just under the government buying price.

While this purchase program was going on, the industrial demand for silver was increasing. Silver not only continued to be used in the luxury items, but found rising new markets in the electronics and aircraft industries and other important industrial fields. At current rates, world consumption of silver exceeds new production plus the secondary supplies coming into the market. Since 1959, the demand has been met by adding Treasury silver to these supplies either through direct sales or through the redemption of silver certificates. The coinage needs of the United States, as well as for some other countries, have been met from existing stocks and have not been a factor in the market.

In 1933, when the first Presidential Proclamation taking newly mined domestic silver off the market was issued, United States industrial consumption amounted to only 10.8 million ounces. During the 8-year period from 1933 through 1940, annual average industrial consumption in the United States was 23 million ounces. In 1941, at the start of the war, it jumped to 72.4 million ounces and then averaged 116 million ounces during the war period 1942 through 1945. Consumption in the United States since the war has been up and down from a low of 85.5 million ounces to a high of 120 million ounces. In 1963 it was 110 million ounces and in 1964 it is estimated that the demand was about 120 million ounces.

There is no end-use breakdown of world industrial consumption, and even in the United States the statistics are unsatisfactory since it is difficult for the seller to identify the final use of silver. For example, silver solder may be used in any number of

operations. However, from what information is available on United States consumption, we can make the following breakdown of the estimated industrial and artistic uses of silver for the year 1963:

	Troy Ounces
Batteries	6,200,000
Brazing alloys and solders	13,000,000
Dental and Medical	5,100,000
Electrical contacts and other electrical uses; Electronic components	26,000,000
Mirrors	3,100,000
Missiles	200,000
Photographic film, plates, and sensitized photographic paper	33,300,000
Silverware and Jewelry	22,000,000
Miscellaneous	1,100,000
Total industrial use - Domestic	110,000,000

The current situation regarding domestic production and consumption is: annual newly mined production runs around 35 million ounces and net industrial consumption amounts to about 110 million ounces. In other words, we in the United States consume industrially about three times our current production. More than 60 percent of our production in the United States comes into being as a by-product of copper, lead and zinc mining. The remainder comes from mines in which silver is a primary metal.

The excess over and above this domestic production must either be met by the importation of silver or from Treasury stocks As a general rule, the United States is a net importer of silver. However, in the year just ended, with silver in rising demand in other areas, we were a net exporter. The absence of a surplus abroad, of course, added to the drain on the Treasury stocks.

Free world industrial consumption of silver (exclusive of coinage) has increased over 86 percent during the last 15 years. In 1949 it amounted to 132.5 million ounces and in 1963 it was 247.0 million ounces. Exclusive of the United States, free world industrial consumption rose from 47.4 million ounces in 1950 to the current level of about 137 million ounces in 1963.

In 1933, when the first Presidential Proclamation taking newly mined domestic silver off the market was issued, the use of silver in coinage that year amounted to less than one million ounces. During the 8-year period from 1933 through 1940, the average annual consumption of silver in the United States coins was 16 million ounces. In 1941, at the start of the war, it jumped to 55 million ounces and an annual average of 67.5 million ounces were consumed in coinage during the war period 1942 through 1945. From 1945 through 1961 the average was 38.8 million ounces. In 1962 coinage use rose to 77 million ounces and in 1963 to 111 million ounces. In the year just ended on December 31, we consumed a total of 203 million ounces in United States coinage.

Meanwhile coinage consumption of silver in the rest of the free world, has decreased 13.7 percent during the past 15 years. In 1949, it amounted to 70.4 million ounces and in 1963, 60.7 million ounces.

Silver's role in national monetary systems has been declining -- few countries now use silver in coinage or as backing for paper money.

Over the years, silver has played an important role by providing part of the hand-to-hand money in the United States and, of course, it has also backed some of our paper currency. Certainly hand-to-hand money plays a key role in facilitating trade, but in terms of our overall money supply -- which includes bank deposits as the major portion -- its role is small; our money supply now totals about $157 billion, while the total amount of our coins and silver certificates amount to only $4.3 billion.

The United States Treasury has not purchased silver in commercial quantities since 1959. In order to obtain silver to meet coinage needs, President Kennedy on November 28, 1961, directed the Treasury to retire silver certificates, thus freeing the silver back of such certificates for the manufacture of silver coins. At that time the Federal Reserve banks did not have the authority to issue Federal Reserve notes below the $5 denomination. Therefore, our supply of silver for coinage was limited to the retirement of silver certificates of $5 and above, the only certificates that could be replaced by corresponding Federal Reserve notes. The Act of June 4, 1963, authorized the issuance of $1 and $2 Federal Reserve notes, thus making it possible to retire gradually all silver certificates and to free the silver as needed for coinage.

The United States Treasury also continues to redeem silver certificates with silver bullion upon request at the monetary price of $1.29¢ an ounce. When the market price rises to that level, as at present, this results in a further drain on the silver stocks.

On February 1, 1965, the Treasury held 1,150,975,280.6 troy ounces of silver in the form of bullion back of silver certificates. This constitutes a large reserve -- about five times annual world industrial demand -- from which we can obtain our immediate coinage needs and from which we can redeem silver certificates.

It is naturally difficult to estimate the present life of our silver stocks. In 1964, our stocks fell 372.1 million ounces. We used 202.4 million ounces of new silver for coinage and sold 8.7 million ounces to other government agencies. Silver certificates were redeemed by the public for approximately 141.2 million ounces of bullion and 25.6 million silver dollars containing 19.8 million ounces of silver.

Quite clearly, silver has experienced such a sharply increased industrial and coinage demand in relation to the supply, that its role as hand-to-hand money must be reappraised.

In view of the many uncertainties in appraising coinage and industrial demand for silver in the next few years, as well as the possibility of increases in production, it is impossible to estimate with precision the date when our silver stocks might in fact be depleted. While it is evident that our current stocks provide protection against an immediate problem, we must also recognize that a continuation of present trends will make it necessary in the reasonably near future either to reduce the silver content of our coins or to use a different alloy. We cannot delay a decision, for to delay is to risk jeopardizing our assured ability to protect the existing coinage and to provide an orderly changeover to a new alloy. Consequently, it is imperative that any change be made while our silver stocks are still ample. The studies that the Treasury now has under way are designed to provide a sound basis for determining when a change in our silver coinage may be appropriate and what the nature of this change should be, so that these decisions can be made in advance of any serious problem. Our major objective in considering the various alternatives that have been proposed is, as it must be, to assure that the needs of our economy for acceptable coins in ample supply will not be jeopardized.

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C. Reforms of a technical nature should be made in certain estate tax provisions which govern tax incidents of contributions to private foundations.

D. A sanction less severe than the criminal penalty of existing law should apply for the failure to file a return required of a private foundation.

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These Treasury Department proposals are based upon a recognition that private foundations can and do make a major contribution to our society. The proposals have been carefully devised to eliminate subordination of charitable interests to personal interests, to stimulate the flow of foundation funds to active, useful programs, and to focus the energies of foundation fiduciaries upon their philanthropic functions. The recommendations seek not only to end diversions, distractions, and abuses, but to stimulate and foster the active pursuit of charitable ends which the tax laws seek to encourage. Any restraints which the proposals may impose on the flow of funds to private foundations will be far outweighed by the benefits which will accrue to charity from the removal of abuses and from the elimination of the shadow which the existence of abuse now casts upon the private foundation area.

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this proposal, the donor and related parties would not be permitted to constitute more than 25 percent of the foundation's governing body after the expiration of the prescribed period of time. Foundations which have now been in existence for 25 years would be permitted to continue subject to substantial donor influence for a period of from five to ten years from the present time.

III. Additional Problems

Review of the practices of private foundations and their contributors discloses the existence of several problems which have less general significance than those discussed in Part II of the Report. Part III of the Report draws the following conclusions about these problems:

A. Gifts to private foundations of certain classes of unproductive property should not be deductible until the foundation sells the property, makes it productive, applies it to a charitable activity, or transmits it to a charitable organization other than a private foundation.

B. Charitable deductions for the contribution to private foundations of section 306 stock (generally, preferred stock of a corporation whose common stock is owned by the donor) and other assets should be reduced by the amount of the ordinary income which the donor would have realized if he had sold them.

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purposes be prohibited. [1/] Second, it recommends that foundation loans be confined to categories which are clearly necessary, safe, and appropriate for charitable fiduciaries. Third, it proposes that foundations be prohibited from trading activities and speculative practices.

F. Broadening of Foundation Management

Present law imposes no limit upon the period of time during which a donor or his family may exercise substantial influence upon the affairs of a private foundation. While close donor involvement with a foundation during its early years can provide unique direction for the foundation's activities and infuse spirit and enthusiasm into its charitable endeavors, these effects tend to diminish with the passage of time, and are likely to disappear altogether with the donor's death. On the other hand, influence by a donor or his family presents opportunities for private advantage and public detriment which are too subtle and refined for specific prohibitions to prevent; it provides no assurance that the foundation will receive objective evaluation by private parties who can terminate the organization if, after a reasonable period of time, it has not proved itself; and it permits the development of narrowness of view and inflexibility in foundation management. Consequently, the Treasury Department recommends an approach which would broaden the base of foundation management after the first 25 years of the foundation's life. Under

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1/ This recommendation would not prevent foundations from borrowing money to carry on their exempt functions.

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E. Financial Transactions Unrelated to Charitable Functions

Private foundations necessarily engage in many financial transactions connected with the investment of their funds. Experience has, however, indicated that unrestricted foundation participation in three classes of financial activities which are not essential to charitable operations or investment programs can produce seriously unfortunate results.

Some foundations have borrowed heavily to acquire productive assets. In doing so, they have often permitted diversions of a portion of the benefit of their tax exemptions to private parties, and they have been able to swell their holdings markedly without dependence upon contributors. Certain foundations have made loans whose fundamental motivation was the creation of unwarranted private advantage. The borrowers, however, were beyond the scope of reasonable and administrable prohibitions on foundation self-dealing, and the benefits accruing to the foundation's managers or donors were sufficiently nebulous and removed from the loan transactions themselves to be difficult to discover, identify, and prove. Some foundations have participated in active trading of securities or speculative practices.

The Treasury Department recommends special rules to deal with each of these three classes of unrelated financial transactions. First, it proposes that all borrowing by private foundations for investment

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devotes the property to active charitable operations, or (c) donor control over the business or property terminates. Correlatively, the recommended legislation would treat transfers of such interests, made at or before death, as incomplete for all estate tax purposes unless one of the three qualifying events occurs within a specified period (subject to limited extension) after the donor's death. For the purposes of this rule, control would be presumed to exist if the donor and related parties own 20 percent of the voting power of a corporation or a 20 percent interest in an unincorporated business or other property. This presumption could be rebutted by a showing that a particular interest does not constitute control. In determining whether or not the donor and related parties possess control, interests held by the foundation would be attributed to them until all of their own rights in the business or other underlying property cease.

The Treasury Department has given careful consideration to a modification of this proposal which would postpone the donor's deduction only where, after the contribution, he and related parties control the business or other underlying property and, in addition, exercise substantial influence upon the foundation to which the contribution was made. Such a rule would permit an immediate deduction to a donor who transfers controlled property to a foundation over which he does not have substantial influence. Analysis of this modification indicates that it possesses both advantages and disadvantages. Congressional evaluation of the matter, hence, will require careful balancing of the two.

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D. Family Use of Foundations to Control Corporate and Other Property

Donors have frequently transferred to private foundations stock of corporations over which the donor maintains control. The resulting relationships among the foundation, corporation, and donor have serious undesirable consequences which require correction. Similar problems arise when a donor contributes an interest in an unincorporated business, or an undivided interest in property, in which he or related parties continue to have substantial rights. In all of these situations, there is substantial likelihood that private interests will be preferred at the expense of charity. Indeed, each of the three major abuses discussed thus far may be presented in acute form here. The problems here are sufficiently intensified, complex, and possessed of novel ramifications to require a special remedy.

To provide such a remedy, the Treasury Department recommends the adoption of legislation which, for gifts made in the future, would recognize that the transfer of an interest in a family corporation or other controlled property lacks the finality which should characterize a deductible charitable contribution. Under this recommendation, where the donor and related parties maintain control of a business or other property after the contribution of an interest in it to a private foundation, no income tax deduction would be permitted for the gift until (a) the foundation disposes of the contributed asset, (b) the foundation

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nonetheless be of sufficient magnitude to produce involvement in the affairs of the business.

Serious difficulties result from foundation commitment to business endeavors. Regular business enterprises may suffer serious competitive disadvantage. Moreover, opportunities and temptations for subtle and varied forms of self-dealing -- difficult to detect and impossible completely to proscribe -- proliferate. Foundation management may be drawn from concern with charitable activities to time-consuming concentration on the affairs and problems of the commercial enterprise.

For these reasons, the Report proposes the imposition of an absolute limit upon the participation of private foundations in active business, whether presently owned or subsequently acquired. This recommendation would prohibit a foundation from owning, either directly or through stock holdings, 20 percent or more of a business unrelated to the charitable activities of the foundation (within the meaning of section 513). Foundations would be granted a prescribed reasonable period, subject to extension, in which to reduce their present or subsequently acquired business interests below the specified maximum limit.

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First, such private foundations should be required to devote all of their net income [2/] to active charitable operations (whether conducted by themselves or by other charitable organizations) on a reasonably current basis. To afford flexibility, the requirement should be tempered by a five-year carryforward provision and a rule permitting accumulations for a specified reasonable period if their purpose is clearly designated in advance and accumulation by the foundation is necessary to that purpose.

Second, in the case of non-operating private foundations which minimize their regular income by concentrating their investments in low yielding assets, an "income equivalent" formula should be provided to place them on a parity with foundations having more diversified portfolios. This result can be accomplished by requiring that they disburse an amount equal either to actual foundation net income [2/] or to a fixed percentage of foundation asset value, whichever is greater.

C. Foundation Involvement in Business

Many private foundations have become deeply involved in the active conduct of business enterprises. Ordinarily, the involvement takes the form of ownership of a controlling interest in one or more corporations which operate businesses; occasionally, a foundation owns and operates a business directly. Interests which do not constitute control may

2/ Except long-term capital gains.

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Taking note of the disadvantages to charity of permitting unrestricted accumulations of income, Congress in 1950 enacted the predecessor of section 504 of the present Internal Revenue Code, which denies an organization's exemption for any year in which its income accumulations are (a) "unreasonable" in amount or duration for accomplishing its exempt purposes, (b) used to a "substantial" degree for other purposes, or (c) invested in a way which "jeopardizes" the achievement of its charitable objectives. 1/ The indefiniteness of the section's standards, however, has rendered this provision difficult to apply and even more difficult to enforce. Two changes in the law are needed for private foundations which do not carry on substantial active charitable endeavors of their own.

1/ Section 681 imposes similar restrictions upon non-exempt trusts which, under section 642(c), claim charitable deductions in excess of the ordinary percentage limitations on individuals' deductible contributions.

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administer, hard to enforce in litigation, and otherwise insufficient to prevent abuses. Whatever minor advantages charity may occasionally derive from the opportunity for free dealings between foundations and donors are too slight to overcome the weight of these considerations. Consequently, the Report recommends legislative rules patterned on the total prohibitions of the 1950 House bill. The effect of this recommendation would, generally, be to prevent private foundations from dealing with any substantial contributor, any officer, director, or trustee of the foundation, or any party related to them, except to pay reasonable compensation for necessary services and to make incidental purchases of supplies.

B. Delay in Benefit to Charity

The tax laws grant current deductions for charitable contributions upon the assumption that the funds will benefit the public welfare. This aim can be thwarted when the benefits are too long delayed. Typically, contributions to a foundation are retained as capital, rather than distributed. While this procedure is justified by the advantages which private foundations can bring to our society, in few situations is there justification for the retention of income (except long-term capital gains) by foundations over extended periods. Similarly, the purposes of charity are not well served when a foundation's charitable disbursements are restricted by the investment of its funds in assets which produce little or no current income.

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II. Major Problems

The Treasury Department's study of private foundations has revealed the existence of six categories of major problems.

A. Self-dealing

Some donors who create or make substantial contributions to a private foundation have engaged in other transactions with the foundation. Property may be rented to or from it; assets may be sold to it or purchased from it; money may be borrowed from it or loaned to it. These transactions are rarely necessary to the discharge of the foundation's charitable objectives; and they give rise to very real danger of diversion of foundation assets to private advantage.

Cognizant of this danger, the House of Representatives in 1950 approved a bill which would have imposed absolute prohibitions upon most financial intercourse between foundations and donors or related parties, and which would have severely restricted other such dealings. However, the measure finally adopted, which has been carried without material change into present law, prohibits only loans which do not bear a "reasonable" rate of interest and do not have "adequate" security, "substantial" purchases of property for more than "adequate" consideration, "substantial" sales of property for less than "adequate" consideration, and certain other transactions.

Fourteen years of experience have demonstrated that the imprecision of this statute makes the law difficult and expensive to

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their own bents, concerns, and experience. In doing so, they enrich the pluralism of our social order. Equally important, because their funds are frequently free of commitment to specific operating programs, they can shift the focus of their interest and their financial support from one charitable area to another. They can, hence, constitute a powerful instrument for evolution, growth, and improvement in the shape and direction of charity.

B. Evaluation of General Criticisms of Private Foundations

Three broad criticisms have been directed at private foundations. It has been contended that the interposition of the foundation between the donor and active charitable pursuits entails undue delay in the transmission of the benefits which society should derive from charitable contributions; that foundations are becoming a disproportionately large segment of our national economy; and that foundations represent dangerous concentrations of economic and social power. Upon the basis of these contentions, some persons have argued that a time limit should be imposed on the lives of all foundations. Analysis of these criticisms, however, demonstrates that the first appears to be susceptible of solution by a measure of specific design and limited scope, the second lacks factual basis, and the third is, for the present, being amply met by foundations themselves. As a consequence, the Treasury Department has concluded that prompt and effective action to end the specific abuses extant among foundations is preferable to a general limitation upon foundation lives.

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SUMMARY OF REPORT

I. An Appraisal of Private Foundations

While private foundations have generally been accorded the same favorable tax treatment granted other philanthropic organizations -- exemption from tax and the privilege of receiving donations deductible by the donors -- previous legislation has placed several special restrictions upon them. To determine whether additional restrictions are necessary, one must first inquire into the character of the contribution which private foundations make to private philanthropy and the validity of the general ciriticisms which have been leveled at them.

A. Philanthropic Values and Private Foundations

Private philanthropy plays a special and vital role in our society. Beyond providing for areas into which government cannot or should not advance (such as religion), private philanthropic organizations can be uniquely qualified to initiate thought and action, experiment with new and untried ventures, dissent from prevailing attitudes, and act quickly and flexibly.

Private foundations have an important part in this work. Available even to those of relatively restricted means, they enable individuals or small groups of establish new charitable endeavors and to express

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C. Reforms of a technical nature should be made in certain estate tax provisions which govern tax incidence of contributions to private foundations.

D. A sanction less severe than the criminal penalty of existing law should apply for the failure to file a return required of a private foundation.

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These Treasury Department proposals are based upon a recognition that private foundations can and do make a major contribution to our society. The proposals have been carefully devised to eliminate subordination of charitable interests to personal interests, to stimulate the flow of foundation funds to active, useful programs, and to focus the energies of foundation fiduciaries upon their philanthropic functions. The recommendations seek not only to end diversions, distractions, and abuses, but to stimulate and foster the active pursuit of charitable ends which the tax laws seek to encourage. Any restraints which the proposals may impose on the flow of funds to private foundations will be far outweighed by the benefits which will accrue to charity from the removal of abuses and from the elimination of the shadow which the existence of abuse now casts upon the private foundation area.

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this proposal, the donor and related parties would not be permitted to constitute more than 25 percent of the foundation's governing body after the expiration of the prescribed period of time. Foundations which have now been in existence for 25 years would be permitted to continue subject to substantial donor influence for a period of from five to ten years from the present time.

III. Additional Problems

Review of the practices of private foundations and their contributors discloses the existence of several problems which have less general significance than those discussed in Part II of the Report. Part III of the Report draws the following conclusions about these problems:

A. Gifts to private foundations of certain classes of unproductive property should not be deductible until the foundation sells the property, makes it productive, applies it to a charitable activity, or transmits it to a charitable organization other than a private foundation.

B. Charitable deductions for the contribution to private foundations of section 306 stock (generally, preferred stock of a corporation whose common stock is owned by the donor) and other assets should be reduced by the amount of the ordinary income which the donor would have realized if he had sold them.

purposes be prohibited.[3] Second, it recommends that foundation loans be confined to categories which are clearly necessary, safe, and appropriate for charitable fiduciaries. Third, it proposes that foundations be prohibited from trading activities and speculative practices.

F. Broadening of Foundation Management

Present law imposes no limit upon the period of time during which a donor or his family may exercise substantial influence upon the affairs of a private foundation. While close donor involvement with a foundation during its early years can provide unique direction for the foundation's activities and infuse spirit and enthusiasm into its charitable endeavors, these effects tend to diminish with the passage of time, and are likely to disappear altogether with the donor's death. On the other hand, influence by a donor or his family presents opportunities for private advantage and public detriment which are too subtle and refined for specific prohibitions to prevent; it provides no assurance that the foundation will receive objective evaluation by private parties who can terminate the organization if, after a reasonable period of time, it has not proved itself; and it permits the development of narrowness of view and inflexibility in foundation management. Con[illegible] the Treasury Department recommends an approach which would broaden the base of foundation management after the first 25 years of the foundation's life. Under

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[3] This recommendation would not prevent foundations from borrowing money to carry on their exempt functions.

E. <u>Financial Transactions Unrelated to Charitable Functions</u>

Private foundations necessarily engage in many financial transactions connected with the investment of their funds. Experience has, however, indicated that unrestricted foundation participation in three classes of financial activities which are not essential to charitable operations or investment programs can produce seriously unfortunate results.

Some foundations have borrowed heavily to acquire productive assets. In doing so, they have often permitted diversions of a portion of the benefit of their tax exemptions to private parties, and they have been able to swell their holdings markedly without dependence upon contributors. Certain foundations have made loans whose fundamental motivation was the creation of unwarranted private advantage. The borrowers, however, were beyond the scope of reasonable and administrable prohibitions on foundation self-dealing, and the benefits accruing to the foundation's managers or donors were sufficiently nebulous and removed from the loan transactions themselves to be difficult to discover, identify, and prove. Some foundations have participated in active trading of securities or speculative practices.

The Treasury Department recommends special rules to deal with each of these three classes of unrelated financial transactions. First, it proposes that all borrowing by private foundations for investment

devotes the property to active charitable operations, or (c) donor control over the business or property terminates. Correlatively, the recommended legislation would treat transfers of such interests, made at or before death, as incomplete for all estate tax purposes unless one of the three qualifying events occurs within a specified period (subject to limited extension) after the donor's death. For the purposes of this rule, control would be presumed to exist if the donor and related parties own 20 percent of the voting power of a corporation or a 20 percent interest in an unincorporated business or other property. This presumption could be rebutted by a showing that a particular interest does not constitute control. In determining whether or not the donor and related parties possess control, interests held by the foundation would be attributed to them until all of their own rights in the business or other underlying property cease.

The Treasury Department has given careful consideration to a modification of this proposal which would postpone the donor's deduction only where, after the contribution, he and related parties control the business or other underlying property and, in addition, exercise substantial influence upon the foundation to which the contribution was made. Such a rule would permit an immediate deduction to a donor who transfers controlled property to a foundation over which he does not have substantial influence. Analysis of this modification indicates that it possesses both advantages and disadvantages. Congressional evaluation of the matter, hence, will require careful balancing of the two.

D. Family Use of Foundations to Control Corporate and Other Property

Donors have frequently transferred to private foundations stock of corporations over which the donor maintains control. The resulting relationships among the foundation, corporation, and donor have serious undesirable consequences which require correction. Similar problems arise when a donor contributes an interest in an unincorporated business, or an undivided interest in property, in which he or related parties continue to have substantial rights. In all of these situations, there is substantial likelihood that private interests will be preferred at the expense of charity. Indeed, each of the three major abuses discussed thus far may be presented in acute form here. The problems here are sufficiently intensified, complex, and possessed of novel ramifications to require a special remedy.

To provide such a remedy, the Treasury Department recommends the adoption of legislation which, for gifts made in the future, would recognize that the transfer of an interest in a family corporation or other controlled property lacks the finality which should characterize a deductible charitable contribution. Under this recommendation, where the donor and related parties maintain control of a business or other property after the contribution of an interest in it to a private foundation, no income tax deduction would be permitted for the gift until (a) the foundation disposes of the contributed asset, (b) the foundation

nonetheless be of sufficient magnitude to produce involvement in the affairs of the business.

Serious difficulties result from foundation commitment to business endeavors. Regular business enterprises may suffer serious competitive disadvantage. Moreover, opportunities and temptations for subtle and varied forms of self-dealing -- difficult to detect and impossible completely to proscribe -- proliferate. Foundation management may be drawn from concern with charitable activities to time-consuming concentration on the affairs and problems of the commercial enterprise.

For these reasons, the Report proposes the imposition of an absolute limit upon the participation of private foundations in active business, whether presently owned or subsequently acquired. This recommendation would prohibit a foundation from owning, either directly or through stock holdings, 20 percent or more of a business unrelated to the charitable activities of the foundation (within the meaning of section 513). Foundations would be granted a prescribed reasonable period, subject to extension, in which to reduce their present or subsequently acquired business interests below the specified maximum limit.

First, such private foundations should be required to devote all of their net income 2/ to active charitable operations (whether conducted by themselves or by other charitable organizations) on a reasonably current basis. To afford flexibility, the requirement should be tempered by a five-year carryforward provision and a rule permitting accumulations for a specified reasonable period if their purpose is clearly designated in advance and accumulation by the foundation is necessary to that purpose.

Second, in the case of non-operating private foundations which minimize their regular income by concentrating their investments in low yielding assets, an "income equivalent" formula should be provided to place them on a parity with foundations having more diversified portfolios. This result can be accomplished by requiring that they disburse an amount equal either to actual foundation net income 2/ or to a fixed percentage of foundation asset value, whichever is greater.

C. Foundation Involvement in Business

Many private foundations have become deeply involved in the active conduct of business enterprises. Ordinarily, the involvement takes the form of ownership of a controlling interest in one or more corporations which operate businesses; occasionally, a foundation owns and operates a business directly. Interests which do not constitute control may

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2/ Except long-term capital gains.

Taking note of the disadvantages to charity of permitting unrestricted accumulations of income, Congress in 1950 enacted the predecessor of section 504 of the present Internal Revenue Code, which denies an organization's exemption for any year in which its income accumulations are (a) "unreasonable" in amount or duration for accomplishing its exempt purposes, (b) used to a "substantial" degree for other purposes, or (c) invested in a way which "jeopardizes" the achievement of its charitable objectives. 1/ The indefiniteness of the section's standards, however, has rendered this provision difficult to apply and even more difficult to enforce. Two changes in the law are needed for private foundations which do not carry on substantial active charitable endeavors of their own.

1/ Section 681 imposes similar restrictions upon non-exempt trusts which, under section 642(c), claim charitable deductions in excess of the ordinary percentage limitations on individuals' deductible contributions.

administer, hard to enforce in litigation, and otherwise insufficient to prevent abuses. Whatever minor advantages charity may occasionally derive from the opportunity for free dealings between foundations and donors are too slight to overcome the weight of these considerations. Consequently, the Report recommends legislative rules patterned on the total prohibitions of the 1950 House bill. The effect of this recommendation would, generally, be to prevent private foundations from dealing with any substantial contributor, any officer, director, or trustee of the foundation, or any party related to them, except to pay reasonable compensation for necessary services and to make incidental purchases of supplies.

B. Delay in Benefit to Charity

The tax laws grant current deductions for charitable contributions upon the assumption that the funds will benefit the public welfare. This aim can be thwarted when the benefits are too long delayed. Typically, contributions to a foundation are retained as capital, rather than distributed. While this procedure is justified by the advantages which private foundations can bring to our society, in few situations is there justification for the retention of income (except long-term capital gains) by foundations over extended periods. Similarly, the purposes of charity are not well served when a foundation's charitable disbursements are restricted by the investment of its funds in assets which produce little or no current income.

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II. Major Problems

The Treasury Department's study of private foundations has revealed the existence of six categories of major problems.

A. Self-dealing

Some donors who create or make substantial contributions to a private foundation have engaged in other transactions with the foundation. Property may be rented to or from it; assets may be sold to it or purchased from it; money may be borrowed from it or loaned to it. These transactions are rarely necessary to the discharge of the foundation's charitable objectives; and they give rise to very real danger of diversion of foundation assets to private advantage.

Cognizant of this danger, the House of Representatives in 1950 approved a bill which would have imposed absolute prohibitions upon most financial intercourse between foundations and donors or related parties, and which would have severely restricted other such dealings. However, the measure finally adopted, which has been carried without material change into present law, prohibits only loans which do not bear a "reasonable" rate of interest and do not have "adequate" security, "substantial" purchases of property for more than "adequate" consideration, "substantial" sales of property for less than "adequate" consideration, and certain other transactions.

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SUMMARY OF REPORT

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While private foundations have generally been accorded the same favorable tax treatment granted other philanthropic organizations -- exemption from tax and the privilege of receiving donations deductible by the donors -- previous legislation has placed several special restrictions upon them. To determine whether additional restrictions are necessary, one must first inquire into the character of the contribution which private foundations make to private philanthropy and the validity of the general criticisms which have been leveled at them.

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9/ The provisions designed to ensure compliance with existing law will have to be re-examined to determine their adequacy to the task of securing compliance with the rules proposed in this Report. The fundamental objective of such provisions should be to make certain that funds which have been committed to charity and for which tax benefits have been granted will in fact be devoted to charitable ends. Thus, effective [illegible] recommended here will require the filing of [illegible] by the organizations to which the rules apply. Since certain private foundations are not now required to file such returns, suitable revisions will have to be made in the relevant provisions of existing [illegible]

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This Report responds to requests by the Committee on Finance of the United States Senate and the Committee on Ways and Means of the House of Representatives that the Treasury Department examine the activities of private foundations for tax abuses and report its conclusions

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assets of foundations were represented by common stock. The ordinary income of foundations in their tax year ending in 1962 was $580 million. In this period aggregate net capital gains were $484 million. Contributions received were $833 million. Total grants paid out, including the costs of distributing grants, were $1,012 million.

1962. Apparently, much of this relative growth since 1950 reflects the fact that corporate stock prices have risen faster than that of other assets. Private foundations have large holdings of corporate stock but the share of all corporate stock owned by foundations has been virtually constant since 1950.

The Treasury survey of foundations covered about 1,300 of the roughly 15,000 private foundations in the United States in 1962. The sample included all of the largest private foundations and the total assets of the foundations studied made up three quarters of the assets of all private foundations in 1962.

The survey shows that the market value of the assets of all private foundations at the end of the tax year 1962 was $16.3 billion. The net worth, in terms of market values, was $15.5 billion. In terms of current values, two-thirds of the

Under this proposal, after that time the donor or related parties could not make up more than 25 percent of the foundation's governing body.

In addition to the six major recommendations, the Treasury also recommended measures to meet four less significant problems. These problems are primarily technical in nature.

The report brings together and evaluates statistical information on the long-run growth of private foundations as well as the closely related growth of deductions for charitable contributions. It also includes the results of a statistical survey by the Treasury of the activity of private foundations in 1962.

This information indicates that the proportion of total wealth of individuals owned by foundations has increased from about 0.3 or 0.5 percent in 1930 to about .085 percent in

5. In order to meet the problem of "unrelated financial transactions" in which a foundation engages in lending or borrowing not related to its charitable function or speculation, the Treasury recommends barring foundations from speculative practices; prohibiting all borrowing by foundations for investment purposes; and confining foundation loans to those which are clearly necessary, safe, and appropriate.

6. In order to meet the problem of "perpetual donor influence" in which a donor or his survivors continue to exercise substantial influence over the activities of the foundation indefinitely, the Treasury recommends broadening the base of foundation management after the first twenty-five years of a foundation's life.

20 percent or more of any business, included businesses operated in corporate form, not related to its charitable function.

4. In order to meet the problem of "family use" of foundations as devices to transfer control of family corporations or other assets to children or other relatives in such a manner as to avoid the full impact of gift or estate taxes, the Treasury recommends that hereafter for gifts of family corporation stock, no charitable deduction would be allowed until (1) the foundation sells the stock or (2) the foundation contributes the stock to a public charity or (3) the donor's control over the corporation or asset ended. Such use of foundations as a device to maintain family control can create conflicts of interest to the detriment of charity.

charitable putposes. In order to impose the same obligation upon those foundations which hold investments producing little or no income, the Treasury recommends they be required to maintain expenditures for charitable purposes at approximately the same level as if they had ivested their funds in income-producing assets. These rules on deferred benefits apply only to so-called "non-operating" foundations -- those which make gifts rather than operate an institution themselves.

3. In order to meet the problem of "business involvement" in which foundations become so involved in private business that free competition may be impaired and their charitable function hindered, the Treasury recommends that a foundation not be allowed to own

prohibition on financial transactions between a foundation and its contributors, officers, directors or trustees.

2. In order to meet the problem of "deferred benefits", in which there may be a substantial delay between the time a foundation or a donor receives a tax benefit -- either in the form of a deduction for the donor or an exemption for the foundation -- and when the foundation actually spends funds for charitable purposes, the Treasury recommends limiting the period during which a foundation may withhold its income from charity. This would be done by specifying how soon -- generally one year -- after a foundation receives net income (exclusive of income from long-term capital gains) it would be obliged to spend such income for

However, problems were uncovered among a minority of private foundations. These problems are not subject to solution under present law and, therefore, a number of legislative measures are recommended.

The Treasury does not recommend placing a time limit on the lives of foundations nor does it feel it is necessary to set up a separate regulatory agency to oversee foundation activities.

The Treasury proposes changes in present law to solve six major problems revealed by the study. A number of less significant problems are also dealt with.

The six major problems and the proposed solutions are:

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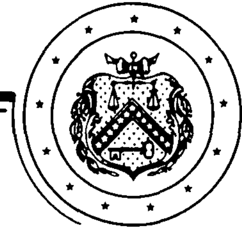
The Treasury study -- which included a detailed statistical survey of foundation activities -- showed that the vast majority of private foundations do not abuse their tax privileges.

C O R R E C T I O N

Treasury Department Release No. D-1494, dated February 8, 1965, on "Treasury Report on Private Foundations", has an error on page 4, first paragraph, line 3:

The percent in 1962 should read 0.85, NOT .085.

TREASURY DEPARTMENT



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(NOTE: A copy of the introduction to the Treasury Report is attached.)

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Cognizant of this danger, the House of Representatives in 1950 approved a bill which would have imposed absolute prohibitions upon most financial intercourse between foundations and donors or related parties, and which would have severely restricted other such dealings. However, the measure finally adopted, which has been carried without material change into present law, prohibits only loans which do not bear a "reasonable" rate of interest and do not have "adequate" security, "substantial" purchases of property for more than "adequate" consideration, "substantial" sales of property for less than "adequate" consideration, and certain other transactions.

Fourteen years of experience have demonstrated that the imprecision of this statute makes the law difficult and expensive to

administer, hard to enforce in litigation, and otherwise insufficient to prevent abuses. Whatever minor advantages charity may occasionally derive from the opportunity for free dealings between foundations and donors are too slight to overcome the weight of these considerations. Consequently, the Report recommends legislative rules patterned on the total prohibitions of the 1950 House bill. The effect of this recommendation would, generally, be to prevent private foundations from dealing with any substantial contributor, any officer, director, or trustee of the foundation, or any party related to them, except to pay reasonable compensation for necessary services and to make incidental purchases of supplies.

B. Delay in Benefit to Charity

The tax laws grant current deductions for charitable contributions upon the assumption that the funds will benefit the public welfare. This aim can be thwarted when the benefits are too long delayed. Typically, contributions to a foundation are retained as capital, rather than distributed. While this procedure is justified by the advantages which private foundations can bring to our society, in few situations is there justification for the retention of income (except long-term capital gains) by foundations over extended periods. Similarly, the purposes of charity are not well served when a foundation's charitable disbursements are restricted by the investment of its funds in assets which produce little or no current income.

Taking note of the disadvantages to charity of permitting unrestricted accumulations of income, Congress in 1950 enacted the predecessor of section 504 of the present Internal Revenue Code, which denies an organization's exemption for any year in which its income accumulations are (a) "unreasonable" in amount or duration for accomplishing its exempt purposes, (b) used to a "substantial" degree for other purposes, or (c) invested in a way which "jeopardizes" the achievement of its charitable objectives. 1/ The indefiniteness of the section's standards, however, has rendered this provision difficult to apply and even more difficult to enforce. Two changes in the law are needed for private foundations which do not carry on substantial active charitable endeavors of their own.

1/ Section 681 imposes similar restrictions upon non-exempt trusts which, under section 642(c), claim charitable deductions in excess of the ordinary percentage limitations on individuals' deductible contributions.

First, such private foundations should be required to devote all of their net income [2/] to active charitable operations (whether conducted by themselves or by other charitable organizations) on a reasonably current basis. To afford flexibility, the requirement should be tempered by a five-year carryforward provision and a rule permitting accumulations for a specified reasonable period if their purpose is clearly designated in advance and accumulation by the foundation is necessary to that purpose.

Second, in the case of non-operating private foundations which minimize their regular income by concentrating their investments in low yielding assets, an "income equivalent" formula should be provided to place them on a parity with foundations having more diversified portfolios. This result can be accomplished by requiring that they disburse an amount equal either to actual foundation net income [2/] or to a fixed percentage of foundation asset value, whichever is greater.

C. Foundation Involvement in Business

Many private foundations have become deeply involved in the active conduct of business enterprises. Ordinarily, the involvement takes the form of ownership of a controlling interest in one or more corporations which operate businesses; occasionally, a foundation owns and operates a business directly. Interests which do not constitute control may

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2/ Except long-term capital gains.

nonetheless be of sufficient magnitude to produce involvement in the affairs of the business.

Serious difficulties result from foundation commitment to business endeavors. Regular business enterprises may suffer serious competitive disadvantage. Moreover, opportunities and temptations for subtle and varied forms of self-dealing -- difficult to detect and impossible completely to proscribe -- proliferate. Foundation management may be drawn from concern with charitable activities to time-consuming concentration on the affairs and problems of the commercial enterprise.

For these reasons, the Report proposes the imposition of an absolute limit upon the participation of private foundations in active business, whether presently owned or subsequently acquired. This recommendation would prohibit a foundation from owning, either directly or through stock holdings, 20 percent or more of a business unrelated to the charitable activities of the foundation (within the meaning of section 513). Foundations would be granted a prescribed reasonable period, subject to extension, in which to reduce their present or subsequently acquired business interests below the specified maximum limit.

D. Family Use of Foundations to Control Corporate and Other Property

Donors have frequently transferred to private foundations stock of corporations over which the donor maintains control. The resulting relationships among the foundation, corporation, and donor have serious undesirable consequences which require correction. Similar problems arise when a donor contributes an interest in an unincorporated business, or an undivided interest in property, in which he or related parties continue to have substantial rights. In all of these situations, there is substantial likelihood that private interests will be preferred at the expense of charity. Indeed, each of the three major abuses discussed thus far may be presented in acute form here. The problems here are sufficiently intensified, complex, and possessed of novel ramifications to require a special remedy.

To provide such a remedy, the Treasury Department recommends the adoption of legislation which, for gifts made in the future, would recognize that the transfer of an interest in a family corporation or other controlled property lacks the finality which should characterize a deductible charitable contribution. Under this recommendation, where the donor and related parties maintain control of a business or other property after the contribution of an interest in it to a private foundation, no income tax deduction would be permitted for the gift until (a) the foundation disposes of the contributed asset, (b) the foundation

devotes the property to active charitable operations, or (c) donor control over the business or property terminates. Correlatively, the recommended legislation would treat transfers of such interests, made at or before death, as incomplete for all estate tax purposes unless one of the three qualifying events occurs within a specified period (subject to limited extension) after the donor's death. For the purposes of this rule, control would be presumed to exist if the donor and related parties own 20 percent of the voting power of a corporation or a 20 percent interest in an unincorporated business or other property. This presumption could be rebutted by a showing that a particular interest does not constitute control. In determining whether or not the donor and related parties possess control, interests held by the foundation would be attributed to them until all of their own rights in the business or other underlying property cease.

The Treasury Department has given careful consideration to a modification of this proposal which would postpone the donor's deduction only where, after the contribution, he and related parties control the business or other underlying property and, in addition, exercise substantial influence upon the foundation to which the contribution was made. Such a rule would permit an immediate deduction to a donor who transfers controlled property to a foundation over which he does not have substantial influence. Analysis of this modification indicates that it possesses both advantages and disadvantages. Congressional evaluation of the matter, hence, will require careful balancing of the two.

E. Financial Transactions Unrelated to Charitable Functions

Private foundations necessarily engage in many financial transactions connected with the investment of their funds. Experience has, however, indicated that unrestricted foundation participation in three classes of financial activities which are not essential to charitable operations or investment programs can produce seriously unfortunate results.

Some foundations have borrowed heavily to acquire productive assets. In doing so, they have often permitted diversions of a portion of the benefit of their tax exemptions to private parties, and they have been able to swell their holdings markedly without dependence upon contributors. Certain foundations have made loans whose fundamental motivation was the creation of unwarranted private advantage. The borrowers, however, were beyond the scope of reasonable and administrable prohibitions on foundation self-dealing, and the benefits accruing to the foundation's managers or donors were sufficiently nebulous and removed from the loan transactions themselves to be difficult to discover, identify, and prove. Some foundations have participated in active trading of securities or speculative practices.

The Treasury Department recommends special rules to deal with each of these three classes of unrelated financial transactions. First, it proposes that all borrowing by private foundations for investment

purposes be prohibited. [1/] Second, it recommends that foundation loans be confined to categories which are clearly necessary, safe, and appropriate for charitable fiduciaries. Third, it proposes that foundations be prohibited from trading activities and speculative practices.

F. Broadening of Foundation Management

Present law imposes no limit upon the period of time during which a donor or his family may exercise substantial influence upon the affairs of a private foundation. While close donor involvement with a foundation during its early years can provide unique direction for the foundation's activities and infuse spirit and enthusiasm into its charitable endeavors, these effects tend to diminish with the passage of time, and are likely to disappear altogether with the donor's death. On the other hand, influence by a donor or his family presents opportunities for private advantage and public detriment which are too subtle and refined for specific prohibitions to prevent; it provides no assurance that the foundation will receive objective evaluation by private parties who can terminate the organization if, after a reasonable period of time, it has not proved itself; and it permits the development of narrowness of view and inflexibility in foundation management. Consequently, the Treasury Department recommends an approach which would broaden the base of foundation management after the first 25 years of the foundation's life. Under

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1/ This recommendation would not prevent foundations from borrowing money to carry on their exempt functions.

this proposal, the donor and related parties would not be permitted to constitute more than 25 percent of the foundation's governing body after the expiration of the prescribed period of time. Foundations which have now been in existence for 25 years would be permitted to continue subject to substantial donor influence for a period of from five to ten years from the present time.

III. Additional Problems

Review of the practices of private foundations and their contributors discloses the existence of several problems which have less general significance than those discussed in Part II of the Report. Part III of the Report draws the following conclusions about these problems:

A. Gifts to private foundations of certain classes of unproductive property should not be deductible until the foundation sells the property, makes it productive, applies it to a charitable activity, or transmits it to a charitable organization other than a private foundation.

B. Charitable deductions for the contribution to private foundations of section 306 stock (generally, preferred stock of a corporation whose common stock is owned by the donor) and other assets should be reduced by the amount of the ordinary income which the donor would have realized if he had sold them.

C. Reforms of a technical nature should be made in certain estate tax provisions which govern tax incidents of contributions to private foundations.

D. A sanction less severe than the criminal penalty of existing law should apply for the failure to file a return required of a private foundation.

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These Treasury Department proposals are based upon a recognition that private foundations can and do make a major contribution to our society. The proposals have been carefully devised to eliminate subordination of charitable interests to personal interests, to stimulate the flow of foundation funds to active, useful programs, and to focus the energies of foundation fiduciaries upon their philanthropic functions. The recommendations seek not only to end diversions, distractions, and abuses, but to stimulate and foster the active pursuit of charitable ends which the tax laws seek to encourage. Any restraints which the proposals may impose on the flow of funds to private foundations will be far outweighed by the benefits which will accrue to charity from the removal of abuses and from the elimination of the shadow which the existence of abuse now casts upon the private foundation area.

TREASURY DEPARTMENT

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON FOREIGN RELATIONS
ON INCREASING THE RESOURCES OF
THE FUND FOR SPECIAL OPERATIONS OF THE
INTER-AMERICAN DEVELOPMENT BANK
FEBRUARY 5, 1965 - 10:00 A.M.

Mr. Chairman and Members of the Committee:

I welcome this opportunity to appear before your Committee in support of the proposed expansion in the resources and responsibilities of the Fund for Special Operations (FSO) of the Inter-American Development Bank (IDB). Adoption of this proposal would be another important step forward in United States support for the Bank -- and for the Alliance for Progress. President Johnson in his recent Budget and Foreign Aid Messages to Congress urged early and favorable action on the legislation before you.

This legislation would authorize the Secretary of the Treasury as U.S. Governor of the IDB to vote in favor of an increase equivalent to $900 million in the resources of the FSO and would authorize the appropriation without fiscal year limitation of $750 million as the U.S. share of this increase. The payments would be made in three annual installments, of $250 million each, in fiscal 1965, 1966 and 1967 and would be

in the form of a letter of credit rather than cash. Separate appropriation legislation would be sought for each year's payment. The Latin American members of the IDB would contribute $50 million a year in their own currencies.

Increased U.S. participation in the FSO under this proposal would be in lieu of any further contributions to the Social Progress Trust Fund.

The National Advisory Council on International Monetary and Financial Problems has considered this proposal and has issued a Special Report strongly recommending Congressional approval. Copies of the Report are before you.

Background of the Proposal

I would like to recall briefly, Mr. Chairman, the history and structure of the Inter-American Development Bank and the scope of the United States' participation in this institution and its activities. The IDB came into legal existence on December 30, 1959 and began operations in the fall of 1960. Even though the IDB was established prior to the Act of Bogotá and the Charter of Punta del Este, it has become the key link in the emerging pattern of close cooperation between the United States and the Latin American republics. It is "the Bank of the Alliance" and is clearly fulfilling this role with great

success. As the principal financial institution of the Inter-American system, the IDB constitutes one of the most essential operating elements of our concerted drive toward economic and social development in Latin America. All of the countries of Latin America are members of the IDB, with the sole exception of Cuba, which is no longer eligible to join.

The Bank has up to now carried on its financing operations through three "windows." The first of these, Ordinary Capital, provides development funds on conventional terms in much the same manner as the World Bank. It commenced operations with governmental subscriptions but now obtains its funds from private financial markets in the same manner as does the World Bank. The second "window" of the Bank is its Fund for Special Operations, designed to offer financing where, for balance of payments or other reasons lending on conventional terms is not appropriate. The FSO's loans on easy repayment terms are made entirely from resources provided by the United States and the Latin American members of the Bank. In addition, since mid-1961 the Bank has acted as Administrator of the Social Progress Trust Fund (SPTF), which amounts to $525 million, all of which has been provided by the United States. Loans from the SPTF are repayable on easy terms and are made for four important areas of social development -- water supply and sanitation,

advanced education, housing, and land settlement and improved land use.

It is with the second of these windows, the Fund for Special Operations, that we are concerned today. The initial resources of the FSO amounted to $146 million, of which the United States provided $100 million and the Latin American countries provided $46 million. In 1963, as an interim measure, the member governments agreed on a $73 million increase in FSO resources, $50 million from the United States and $23 million from the Latin American members. Thus the total resources of the FSO now amount to $219 million, of which the United States has contributed $150 million. Payment of these contributions by members was made one-half in U.S. dollars and one-half in national currency -- which in our case meant that our entire contribution was in dollars. All installments have been fully paid by all member countries.

By December 31, 1964, $171 million of FSO resources had been committed for loans and technical assistance. Further, the management of the Bank estimates that the remainder of the Fund's resources, approximately $48 million, will be fully committed in the next few months. By December 31, 1964 only $75 million remained uncommitted for loans from the SPTF and it is also expected to be fully committed in the near future.

Reasons for the Proposal

After approximately two years of operations with its three windows, the IDB's Board of Governors concluded that the Bank had reached a point in its development at which it would be appropriate to consider the simplification and strengthening of its structure. Moreover, it was evident that the scope and importance of the financing operations carried on by the Bank on an easy repayment basis would soon require major additions to the amount of capital available for these purposes. Accordingly, at the Fourth Annual Meeting in Caracas, Venezuela, in April 1963, the Governors asked the Executive Directors to prepare a study of the future relationships of the FSO to other activities of the Bank and of the sufficiency of the Fund's resources.

At the Annual Meeting held in Panama in April 1964, the Executive Directors reported to the Governors recommending an expansion of the resources of the FSO and a broadening of its functions to include those previously carried on by the SPTF. The recommendation assumed that, concurrent with the expansion of the FSO, the United States would discontinue further contributions to the SPTF. I have made it clear to the other Governors that this would in fact be the case. Thus, the Bank's existing three windows would be reduced to two. One -- the

Ordinary Capital, obtaining its funds in the private capital markets -- would make loans on conventional repayment terms; the other -- the FSO, obtaining its funds from member contributions -- would make loans on easy repayment terms. This arrangement would be quite similar to that of the World Bank and IDA.

The advantage of such a consolidation of functions within the Bank is readily apparent. Administration will be more efficient and economical. The pattern of loan terms offered by the Bank will be more uniform, and the countries borrowing from the Bank will find that loan procedures are simpler and more understandable. From the United States point of view, the expansion of the FSO to include the functions of the SPTF -- and the termination of further contributions to the SPTF -- means that funds hitherto provided entirely by the United States will hereafter be provided in part by the Latin American countries.

Under the proposal of the Executive Directors, which the Bank's Governors have unanimously referred to their governments for appropriate legislative action, the member governments of the Bank would contribute $300 million per year to the FSO in their own national currencies in each of the fiscal years 1965, 1966 and 1967. The United States share of this annual contribution would be $250 million. The Latin American members

of the Bank would contribute $50 million each year in their own national currencies.

For comparison purposes the combined totals of past contributions to the FSO and SPTF have been as follows (in millions of dollars):

Calendar Year	United States	Other Countries
1961-62	$494	$46
1963	0	0
1964	181	23

1961 and 1962 are lumped together since the United States made a contribution of $394 million to the SPTF in 1961 witn tne understanding that it would cover both 1961 and 1962. Contributions that had originally been planned for 1963 were actually approved the the Congress -- and the resources made available to the Bank -- in January 1964.

From these totals it can be seen that the $250 million annual contribution proposed for the United States closely approximates our annual contributions in 1961 and 1962 and exceeds our 1964 contribution by 38 percent. On the other hand, the contributions by the Latin American countries will be more than twice their previous annual contributions.

In considering the need for funds to be lent on easy repayment terms, the Bank's Board of Executive Directors has taken account of Latin America's minimum needs for external

funds to implement the Charter of Punta del Este, of the development programs which have been prepared by individual countries, of the magnitude and types of loan applications and inquiries made to the Bank, and of the Bank's capacity for processing loan applications and controlling disbursements. The Bank has also taken account of the balance-of-payments and external debt problems of Latin America and the continuing need -- as borne out by the experience of other lending institutions -- for credit on special terms such as can be offered by the FSO. Taking account of these varied considerations, the Bank regards a lending level equivalent to $300 million a year, for loans on easy repayment terms, as desirable and feasible in order for it to meet its minimum responsibilities under the Alliance for Progress.

With the combined availabilities of the FSO and the SPTF the Bank succeeded in achieving almost a $250 million annual lending rate in the year 1962. With the resources now being proposed, the Bank will be able to reach and to maintain a slightly higher lending level. Moreover, with the assured availability of funds for a three-year period, the Bank will be able to avoid sharp year to year variations in the level of lending -- such as have occurred over the past few years

because of uncertainities in the timing and amount of new funds provided to the FSO and SPTF. Loans from the two funds aggregated $164 million in 1961, rose to $246 million in 1962, fell to $80 million in 1963, and rose to $135 million in 1964. It seems clear that the efficiency of the Bank's operations and its relationships with borrowers would be greatly improved by the approval of the three-year program now proposed.

Proposed Operations of the Expanded FSO

The operations of the expanded FSO will follow closely many of the patterns and practices successfully established in the past by the separate operations of the FSO and the SPTF. The expanded FSO will continue to provide essential financial assistance for high-priority development projects in the economies of the Latin American members of the IDB. I do not anticipate any diminution in the importance which the Bank attaches to lending for essential social purposes. The type of projects which will be financed include -- in addition to such basic projects as roads, dams, water facilities and industrial development projects -- programs in the fields of low-income housing, improved land utilization, land settlement schemes, and agricultural credit programs. It is also expected that the Bank through the FSO will furnish assistance for the expansion of higher education facilities in Latin America by

making loans to provide for the construction and equipment of facilities at universities and technical institutions. These loans will provide training in the technical and managerial skills so desperately needed if Latin America is to achieve meaningful development of its society and resources. Technical assistance loans and the financing of studies of basic sectors of the economy will also be provided.

In its administration of the proposed expanded FSO, the Bank will continue to take into account the institutional improvements which the borrowing country is undertaking, the specific steps initiated to achieve the success of the project proposed for financial assistance from the FSO, the extent to which local contributions are made available for financing the project, and, lastly but perhaps most important of all, Mr. Chairman, the extent and effectiveness of the over-all self-help practices of the borrower in conformity with the principles established by the Charter of Punta del Este.

Through institutional arrangements in the Bank initiated last year, a senior official advises the President of the Bank on the formulation and review of development objectives, policies, plans and programs. This official -- who is a United States citizen -- and his staff serve as the Bank's liaison with the Inter-American Alliance for Progress Committee (CIAP),

the important new organ of Inter-American economic cooperation. This advisory office is coordinating the effective programming of the Bank's resources, and maintains close contact with other sources of foreign capital, including our own AID administration. The Bank's efforts to program its resources to achieve maximum results will be greatly assisted by the assured availability of funds for a three-year period, as now proposed.

Turning now, Mr. Chairman, to questions of operational procedure, there are two matters I would like to review briefly with you. First, the question of loan terms for the expanded FSO. The Resolution to be voted on by the Board of Governors of the IDB does not specifically state the terms on which future loans from the expanded FSO are to be made. The Resolution states, however, that the Board of Executive Directors of the IDB "in establishing financing policies for the (FSO) shall take into consideration the policies which have guided the operations of the Social Progress Trust Fund."

On loans made by the SPTF interest rates of from 2 to 3-1/2 percent have been applicable, depending upon the nature of the project. Maturities have been from 20 to 30 years including a grace period with repayment of principal and interest

in the currency of the borrower, but with provision for maintenance of value and with optional payment in U.S. dollars. The interest rates I have mentioned include a 3/4 percent per annum service charge which is payable in U.S. dollars. FSO loans have been made on basically similar terms although the interest rate has usually been 4 percent and there is no separate service charge. In a number of instances, loans made by the FSO have required repayment in the currencies lent, but the recent trend of loans has been in favor of allowing repayment in the currency of the borrower.

These terms have applied because of the very nature of the funds and the purposes to which they are being devoted, and of the special needs of the countries concerned. In the light of the Governor's resolution, I would generally expect that loans from the expanded FSO will be repayable in the currency of the borrower with provisions requiring maintenance of value and with maturities ranging from 20 to 30 years. Interest would also be payable in the currency of the borrower and would be between 2-1/4 and 3-1/4 percent. In addition, there would be a service charge of 3/4 of 1 percent, payable in dollars.

The second matter I wish to review is the question of procurement policy. Previous U.S. contributions to the FSO have been available for world-wide procurement, while U.S. contributions to the SPTF were available only for U.S. procurement or procurement in other member countries of the IDB. Under this new proposal, the U.S. contribution to the expanded FSO will be available on the same basis as the SPTF procurement in the past, that is, only for the purchase of goods and services in the United States or from the country of the borrower; or in some cases, from other member countries of the Bank if such a transaction would be advantageous to the borrower. On the basis of past experience with the SPTF this would mean that well over 80 percent of future U.S. contributions to an expanded FSO would be utilized to finance U.S. exports.

Effect of Proposal on the U.S. Balance of Payments

This leads us directly to the matter of the effect of this proposal upon the balance-of-payments position of the United States. As I have indicated earlier, the entire U.S. contribution to the expanded resources of the FSO will be in the form of a letter of credit rather than cash and consequently

will have no immediate impact upon our balance of payments. The letter of credit will be drawn on only later by the Bank as funds are required for disbursement. Consequently, the balance-of-payments impact of these transactions will not be reflected in our international accounts until the cash is paid over to the Bank -- well after the funds have been appropriated. And when the balance-of-payments effect is felt, the fact that over 80 percent of the expenditures from the FSO will be made in the United States will mean that the impact of our contribution will be minimal.

I should add that the letter of credit procedure is somewhat different from the form of non-interest bearing notes used in the past. Now, after each installment is appropriated by the Congress, we would make that year's amount available to the Bank in the form of a letter of credit. This procedure is being increasingly adopted in connection with major domestic federal programs. As in other cases, this procedure will bring budgetary expenditures under the program more closely into line with actual use of the funds by FSO. Existing non-interest bearing notes would, of course, be unaffected.

Relationship to U.S. Bilateral Aid Policies

Both the manner in which the proposed contribution to the expanded FSO will be utilized, and the over-all policies of the IDB are fully in accord with the major policy guidelines established by Congress for the U.S. bilateral aid program. The availability of funds in the expanded FSO for the furtherance of Alliance objectives will be fully taken into account in the preparation of U.S. bilateral economic assistance programs to Latin American nations, as is the availability of funds from other international lending agencies. No funds to be provided to the expanded FSO will be available to Communist bloc countries, as membership in the IDB is limited to Latin American nations, and Cuba has never joined the Bank and is no longer eligible for membership. With respect to the expropriation of private property without compensation, it should be noted that in no case has it been necessary to invoke the "Hickenlooper Amendment" in Latin America requiring the suspension of U.S. assistance. If circumstances should arise requiring such measures by the United States, parallel action could easily be taken in the Fund for Special Operations, since the U.S. vote of 42 percent

is necessary to obtain the two-thirds majority that is required for favorable consideration of any loan made by the Fund for Special Operations.

Proposed Legislative Action

The proposed legislation for which favorable Committee action is requested would: (1) authorize the Secretary of the Treasury as U.S. Governor of the IDB to vote in favor of the Resolution calling for a $900 million increase in the resources of the FSO and, upon adoption of the Resolution by the Board of Governors, to agree on behalf of the United States to a subscription of $750 million in accordance with the terms of the Resolution, and (2) authorize the appropriation without fiscal year limitation of $750 million to be committed in three equal installments.

Need for Prompt Action

It had originally been expected that the increase would take effect on December 31, 1964. This date has now been missed and prompt action is necessary, as otherwise the Bank will be out of funds for these important programs after next April. Further delay on the part of the United States would not only be disruptive to the essential operations of this key institution of the Alliance for Progress, but would also

-- justifiably, I think -- give rise to the feeling on the part of the Latin American members of the Bank that the United States was failing to meet the reasonable expectation of financial support for the Bank compatible with our oft expressed support for the Alliance for Progress. President Johnson stressed the need for prompt action in his Foreign Aid Message to the Congress on January 14. He said:

> "To strengthen multi-national aid, and further to strengthen the Alliance for Progress, I urge the Congress promptly to approve the three-year authorization of $750 million which constitutes the United States contribution to the Fund for Special Operations of the Inter-American Development Bank."

The President re-emphasized this in his Budget Message of January 25.

By the terms of the Resolution adopted at the meeting of the Bank's Governors in Panama in April of last year, the proposal cannot come into effect unless and until the United States acts. The Resolution provides that the agreement to increase the Bank's resources will only become effective after fourteen countries with shares in the increase amounting to $860 million of the $900 million total have completed action to approve the increase. Eighteen of the other nineteen

countries have already taken the necessary action and all that is now necessary is action by the United States.

Conclusion

In conclusion, Mr. Chairman, I would like to reiterate that the Inter-American Development Bank is a vital part of the financial structure of the Alliance for Progress. Therefore, it is most important that the Bank have not only adequate resources, but also the structure most suitable to accomplish the tasks facing it. The administrative advantages of simplifying the Bank's structure through consolidation of the operations of the FSO and the SPTF are clear. The boundaries between lending for social development and lending for economic development are indistinguishable and, therefore, provide no reason to continue the maintenance of separate financing sources which are inseparable in practice.

The FSO's resources will be exhausted very shortly and are in need of replenishment. The resources of the SPTF are also nearing imminent exhaustion. This provides a desirable opportunity to terminate further contributions to the Social Progress Trust Fund and to make future contributions only to an expanded Fund for Special Operations. The proposed U.S. contribution of $250 million per year for the three years

1965, 1966 and 1967 will permit the Inter-American Bank to finance a level of lending on easy repayment terms which is appropriate to fulfill Alliance objectives and necessary if these objectives are to be met.

The IDB and the Alliance for Progress are moving forward; the self-help concept is taking hold. Moreover, we have, in the Inter-American Committee for the Alliance for Progress (CIAP), the institutional framework within which basic problems can be faced and resolved. Expansion of the Fund for Special Operations will sustain and reinforce the forward momentum that is starting to change the face of the other American Republics. I strongly urge the Committee and the Congress to take forward-looking action on the proposal before you.

Thank you, Mr. Chairman.

Annex 1

STATUS OF FUNDS IN FSO AND SPTF
AS OF DECEMBER 31, 1964

	$	Local	Total
FSO			
Total resources contributed	184.5	34.5	219.0
Against which, loan commitments through 12/31/64	146.5	24.4	170.9
Balance available for commitment	38.0	10.1	48.1
SPTF			
Total resources contributed	525.0	--	525.0
Against which, loan commitments through 12/31/64	450.0	--	450.0
Balance available for commitment	75.0	--	75.0
Combined FSO/SPTF			
Total resources contributed	709.5	34.5	--
Against which, loan commitments through 12/31/64	596.5	24.4	--
Balance available for commitment	113.0	10.1	123.1
Less minimum reserve for contingencies	25.0	2.0	27.0
Less estimated net amount of dollars utilized for administrative expenses and technical assistance	7.0	--	7.0
Balance available for commitment	81.0	8.1	89.1

* * * * * *

	$	Local	Total
Projected annual lending rate	250	50	300
Projected monthly lending rate	21	4	25
Estimated number of months beyond Dec. 1964 for which lending could be maintained at projected rate with present resources	Approx. 4 (i.e., through April '65)	Approx. 2 (i.e., through Feb. '65)	Approx. 3 (i.e., through mic March '65)

Annex 2

INTER-AMERICAN DEVELOPMENT BANK

Summary of Loans Approved
through December 31, 1964

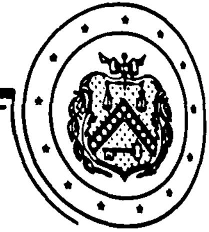
(in millions of dollars)

	1961	1962	1963	1964	Cumulative to date
Approved loans: 1/					
Ordinary Resources	122.9	79.1	178.6	164.0	544.6
Fund for Special Operations	47.2	41.8	32.5	49.4	170.9
Social Progress Trust Fund	112.1	204.9	47.1	85.9	450.0
TOTAL	282.2	325.8	258.2	299.3	1,165.5
* * * * * *					
FSO/SPTF Combined	159.3	246.7	79.6	135.3	620.9

1/ Net of cancellations

NOTE: Totals may not add due to rounding

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A.M. NEWSPAPERS,
Tuesday, February 9, 1965.

February 8, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 12, 1964, and the other series to be dated February 11, 1965, which were offered on February 3, were opened at the Federal Reserve Banks on February 8. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 13, 1965		:	182-day Treasury bills maturing August 12, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.016 a/	3.893%	:	97.990	3.976%
Low	99.011	3.913%	:	97.983	3.990%
Average	99.013	3.903% 1/	:	97.984	3.987% 1/

a/Excepting two tenders totaling $365,000
12 percent of the amount of 91-day bills bid for at the low price was accepted
31 percent of the amount of 182-day bills bid for at the low price was accepted

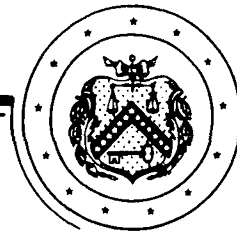
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 32,900,000	$ 13,324,000	:	$ 38,669,000	$ 20,219,00
New York	1,590,168,000	823,583,000	:	1,767,638,000	800,045,00
Philadelphia	24,791,000	12,722,000	:	20,000,000	6,015,00
Cleveland	26,687,000	21,687,000	:	86,479,000	42,895,00
Richmond	12,367,000	12,367,000	:	9,302,000	3,302,00
Atlanta	43,071,000	29,032,000	:	24,216,000	12,318,00
Chicago	280,248,000	121,432,000	:	230,150,000	46,769,00
St. Louis	43,005,000	30,669,000	:	11,336,000	9,836,00
Minneapolis	23,949,000	18,997,000	:	8,751,000	3,501,00
Kansas City	32,761,000	29,761,000	:	22,478,000	14,238,00
Dallas	30,003,000	23,123,000	:	12,888,000	5,888,00
San Francisco	101,743,000	63,660,000	:	216,533,000	36,209,00
TOTALS	$2,241,693,000	$1,200,357,000 b/		$2,448,440,000	$1,001,235,00

b/ Includes $252,352,000 noncompetitive tenders accepted at the average price of 99.01
c/ Includes $92,424,000 noncompetitive tenders accepted at the average price of 97.984
1/ On a coupon issue of the same length and for the same amount invested, the return o these bills would provide yields of 4.00%, for the 91-day bills, and 4.13%, 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-1496

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE A.M. NEWSPAPERS,
:day, February 9, 1965.

February 8, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of
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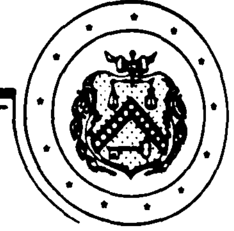
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 9, 1965

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JANUARY

During January 1965, 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 $397,551,800.00.

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D-1497

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 9, 1965

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JANUARY

During January 1965, 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 $397,551,800.00.

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D-1497

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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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on February 18, 1965 -(16)-, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 18, 1965 -(17)-. Cash

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,

February 9, 1965

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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 $ 2,200,000,000 -(2)-, or thereabouts, for cash and in exchange for Treasury bills maturing February 18, 1965 -(3)-, in the amount of $ 2,102,387,000 -(4)-, as follows:

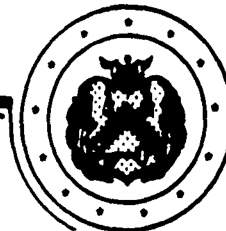
91 -(5)- -day bills (to maturity date) to be issued February 18, 1965 x(6)x, in the amount of $ 1,200,000,000 -(7)-, or thereabouts, representing an additional amount of bills dated November 19, 1964 -(8)-, and to mature May 20, 1965 -(9)-, originally issued in the amount of $ 1,000,823,000 -(10)-, the additional and original bills to be freely interchangeable.

182 -(11)- -day bills, for $ 1,000,000,000 -(12)-, or thereabouts, to be dated February 18, 1965 -(13)-, and to mature August 19, 1965 -(14)-.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 15, 1965 -(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

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 9, 1965

'OR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

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Banking institutions generally may submit tenders for account of stomers provided the names of the customers are set forth in such nders. Others than banking institutions will not be permitted to bmit tenders except for their own account. Tenders will be received ʼhout deposit from incorporated banks and trust companies and from sponsible and recognized dealers in investment securities. Tenders ɔm others must be accompanied by payment of 2 percent of the face ɔunt of Treasury bills applied for, unless the tenders are ompanied by an express guaranty of payment by an incorporated bank trust company.

D-1498

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on February 18, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 18, 1965. 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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Commodity	Period and Quantity		Unit of Quantity	Imports as of Jan. 30, 1965
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year	1,200,000	Pound	Quota Filled
Fibers of Cotton processed but not spun	12 mos. from Sept. 11, 1964	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1964	1,709,000	Pound	Quota Filled

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

THURSDAY, FEBRUARY 11, 1965 D-1499

The Bureau of Customs announced today preliminary figures on imports for consumption of the following commodities from the beginning of the respective quota periods through January 30, 1965:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Jan. 30, 1965
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar Year	1,500,000	Gallon	25,667
Whole Milk, fresh or sour ...	Calendar Year	3,000,000	Gallon	3
Cattle, 700 lbs. or more each (other than dairy cows) ...	Jan. 1, 1965 - Mar. 31, 1965	120,000	Head	2,319
Cattle less than 200 lbs. each	12 mos. from April 1, 1964	200,000	Head	54,243
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	To be announced	Pound	7,162,566
Tuna Fish	Calendar Year	To be announced	Pound	3,540,035
White or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1964	114,000,000	Pound	93,574,555
Other	12 mos. from Sept. 15, 1964	45,000,000	Pound	Quota Filled
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1964 - Oct. 31, 1965	69,000,000	Pieces	57,678,392

TREASURY DEPARTMENT
Washington

MMEDIATE RELEASE

HURSDAY, FEBRUARY 11, 1965 D-1499

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Commodity	Period and Quantity		Unit of Quantity	Imports as of Jan. 30, 196
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year	1,200,000	Pound	Quota Fill
Fibers of Cotton processed but not spun	12 mos. from Sept. 11, 1964	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1964	1,709,000	Pound	Quota Fill

D-1499

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 11, 1965

D-1500

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, AS MODIFIED BY THE TARIFF SCHEDULES OF THE UNITED STATES, WHICH BECAME EFFECTIVE AUGUST 31, 1963.

QUARTERLY QUOTA PERIOD — January 1, 1965 - March 31, 1965

IMPORTS — January 1, 1965 - February 5, 1965 (or as noted)

Country of Production	ITEM 925.01* Lead-bearing ores and materials		ITEM 925.03* Unwrought lead and lead waste and scrap		ITEM 925.02* Zinc-bearing ores and materials		ITEM 925.04* Unwrought zinc (except alloys of zinc and zinc dust) and zinc waste and scrap	
	Quarterly Quota Dutiable lead (Pounds)	Imports	Quarterly Quota Dutiable lead (Pounds)	Imports	Quarterly Quota Zinc Content (Pounds)	Imports	Quarterly Quota By Weight (Pounds)	Imports
Australia	11,220,000	11,220,000	22,540,000	2,894,988	-	-	-	-
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	***499,097
Bolivia	5,040,000	***728,326	-	-	-	-	-	-
Canada	13,440,000	***7,977,559	15,920,000	7,184,175	66,480,000	66,480,000	37,840,000	20,904,744
Italy	-		-		-		3,600,000	***1,722,414
Mexico	-	-	36,880,000	13,973,015	70,480,000	14,579,311	6,320,000	1,200,043
Peru	16,160,000	16,160,000	12,880,000	1,114,059	35,120,000	7,547,915	3,760,000	1,921,008
Republic of the Congo (formerly Belgian Congo)	-	-	-	-	-	-	5,440,000	***3,251,844
**Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	***27,622	-	-	-	-
All other countries (total)	6,560,000	***2,943,629	6,080,000	***2,720,292	17,840,000	***17,607,143	6,080,000	6,080,000

*See Part 2, Appendix to Tariff Schedules.
**Republic of South Africa.
***Imports as of February 8, 1965

PREPARED IN THE BUREAU OF CUSTOMS

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 11, 1965

D-1500

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, AS MODIFIED BY THE TARIFF SCHEDULES OF THE UNITED STATES, WHICH BECAME EFFECTIVE AUGUST 31, 1963.

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IMPORTS - January 1, 1965 - February 5, 1965 (or as noted)

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Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	***499,097
Bolivia	5,040,000	***728,326	-	-	-	-	-	-
Canada	13,440,000	***7,977,559	15,920,000	7,184,175	66,480,000	66,480,000	37,840,000	20,904,744
Italy	-		-		-		3,600,000	***1,722,414
Mexico	-	-	36,880,000	13,973,015	70,480,000	14,579,311	6,320,000	1,200,043
Peru	16,160,000	16,160,000	12,880,000	1,114,059	35,120,000	7,547,915	3,760,000	1,921,008
Republic of the Congo (formerly Belgian Congo)	-	-	-	-	-	-	5,440,000	***3,251,844
**Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	***27,622	-	-	-	-
All other countries (total)	6,560,000	***2,943,629	6,080,000	***2,720,292	17,840,000	***17,607,143	6,080,000	6,080,000

*See Part 2, Appendix to Tariff Schedules.
**Republic of South Africa.
***Imports as of February 8, 1965

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, 1964, to Feb. 8, 1965	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1964 to Feb. 8, 1965
United Kingdom	4,323,457	11,713	1,441,152	-
Canada	239,690	239,393	-	-
France	227,420	-	75,807	-
India and Pakistan	69,627	43,264	-	-
Netherlands	68,240	-	22,747	-
Switzerland	44,388	-	14,796	-
Belgium	38,559	-	12,853	-
Japan	341,535	-	-	-
China	17,322	-	-	-
Egypt	8,135	-	-	-
Cuba	6,544	-	-	-
Germany	76,329	25,425	25,443	-
Italy	21,263	-	7,088	-
Other, including the U. S.	-	-	-	-
	5,482,509	319,795	1,599,886	

1/ Included in total imports, column 2.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 11, 1965

D-1501

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by Presidential Proclamation No. 2351 of September 5, 1939, as amended, and as modified by the Tariff Schedules of the United States which became effective August 31, 1963.

(The country designations in this press release are those specified in the appendix to the Tariff Schedules of the United States. There is no political connotation in the use of outmoded names.)

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1964 - February 8, 1965

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	38,370
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	1,801,410
Brazil	618,723	-
Union of Soviet Socialist Republics	475,124	-
Argentina	5,203	-
Haiti	237	-
Ecuador	9,333	-
Honduras	752	-
Paraguay	871	-
Colombia	124	-
Iraq	195	-
British East Africa	2,240	-
Indonesia and Netherlands New Guinea	71,388	-
1/ British W. Indies	21,321	-
Nigeria	5,377	-
2/ British W. Africa	16,004	-
Other, including the U.S.	-	-

1/ Except Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Except Nigeria and Ghana.

Cotton 1-1/8" or more
Established Yearly Quota - 45,656,420 lbs.

Imports August 1, 1964 - February 8, 1965

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	9,665
1-1/8" or more and under		

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 11, 1965

D-1501

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1-5/32" or more and under		

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, 1964, to Feb. 8, 1965	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1964 to Feb. 8, 1965
United Kingdom............	4,323,457	11,713	1,441,152	-
Canada....................	239,690	239,393	-	-
France....................	227,420	-	75,807	-
India and Pakistan........	69,627	43,264	-	-
Netherlands...............	68,240	-	22,747	-
Switzerland...............	44,388	-	14,796	-
Belgium...................	38,559	-	12,853	-
Japan.....................	341,535	-	-	-
China.....................	17,322	-	-	-
Egypt.....................	8,135	-	-	-
Cuba......................	6,544	-	-	-
Germany...................	76,329	25,425	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U. S.	-	-		-
	5,482,509	319,795	1,599,886	

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
WASHINGTON

IMMEDIATE RELEASE

THURSDAY, FEBRUARY 11, 1965

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1965, to January 30, 1965, inclusive, of commodities under quotas established pursuant to the Philippine Trade Agreement Revision Act of 1955:

Commodity	Established Annual Quota Quantity	Unit of Quantity	Imports as of January 30, 1965
Buttons........	510,000	Gross	35,493
Cigars	120,000,000	Number	543,120
Coconut oil ...	268,800,000	Pound	79,797,078
Cordage	6,000,000	Pound	578,108
Tobacco	3,900,000	Pound	

TREASURY DEPARTMENT
WASHINGTON

IMMEDIATE RELEASE

THURSDAY, FEBRUARY 11, 1965

D-1502

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1965, to January 30, 1965, inclusive, of commodities under quotas established pursuant to the Philippine Trade Agreement Revision Act of 1955:

Commodity	Established Annual Quota Quantity	Unit of Quantity	Imports as of January 30, 1965
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As indicated by the President in his message, the Treasury will shortly submit to Congress a bill embodying specific proposals to improve the tax treatment of foreign investment in U. S. corporate securities, generally along the lines recommended by a special task force appointed by President Kennedy.

Secretary Dillon also noted that the ~~Administration~~ Department of Justice will shortly propose legislation to the Congress that would provide assurance that voluntary efforts, and any voluntary agreements, undertaken by financial institutions as part of the President's program will not be subject to antitrust action.

those acquisitions by all U.S. persons of foreign debt obligatic with a period to maturity of one year or more. Existing exemptions, including those for export credit, direct investment and loans to less developed countries, will continue to apply.

In order to be certain that the proposed amendments to the Interest Equalization Tax do not serve as an inducement to accelerate acquisitions of foreign debt obligations, the President requested Congress to make these amendments effective tomorrow, February 11, 1965. However, these amendments would not be effective with respect to acquisitions made pursuant to firm commitments in effect as of February 10, 1965.

A bill incorporating the proposed amendments to the Interest Equalization Tax has been submitted ~~today~~ by Secretary Dillon to Congress. A detailed outline of this measure and of the President's Executive Order are attached

Application of the tax to all credits to Japan with a period of maturity of one year or more would, in the opinion of the President, have such consequences for that country as to threaten to imperil the stability of the international monetary system. Consequently, the President exempt from tax this year up to $100 million of borrowings by, or guaranteed by, the Government of Japan which would otherwise be subject to the tax.

In requesting Congress to extend the Interest Equalization Tax for two years (to expire on December 31, 1967) the President also asked that its scope be extended so as to subject to tax

efforts of American business to compete more effectively abroad. Also exempted are loans repayable in foreign currencies by foreign branches of U.S. banks and direct investments in foreign subsidiary banks. These exemptions are designed to permit foreign offices of U.S. banks flexibility in conducting their normal operations in the countries where they are located ~~they are domiciled~~. The President's order also made clear that the existing exemption for new Canadian issues would not apply to bank loans.

As provided by the law, the President issued the order extending the tax after concluding that commercial bank loans to foreigners had materially impaired the effectiveness of the Interest Equalization Tax by replacing other types of acquisitions which were subject to the tax. (A statement outlining the facts upon which the President made this finding is attached to this release.)

Commenting on ~~these~~ and other actions asked for by the President, Secretary Dillon said:

"The voluntary cooperation and support of the President's entire program by American business and the general public is essential to its success. The measures taken today will complement, but not substitute for these voluntary efforts."

As announced in the Balance of Payments Message, the President has exercised his power to extend the Interest Equalization Tax to commercial bank loans to developed countries with a period to maturity of one year or more. The Executive Order and Treasury Regulations implementing it have been filed with the Federal Register and will become effective tomorrow, February 11, 1965.

Under the law, export-connected loans of banks are exempted from the tax, assuring the ability of banks to support the

Feb 16, 1965

FOR IMMEDIATE RELEASE DRAFT - ~~2/8/65~~

TREASURY ACTIONS FOLLOW PRESIDENT'S
BALANCE OF PAYMENTS MESSAGE

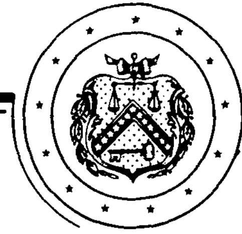
Treasury Secretary Douglas Dillon today announced that he has put regulations into effect to carry out President Johnson's Executive Order applying the Interest Equalization Tax to U.S. bank loans to foreigners.

This and other steps within the Treasury's area of responsibility were outlined by the Secretary following the President's Balance of Payments Message sent to Congress earlier today.

Secretary Dillon said that the Treasury is sending ~~has sent~~ to the Cong a bill extending the present Interest Equalization Tax on foreign securities sold in this country for another two years and expanding its scope to cover one to three year loans.

He also said he will shortly request Congress to reduce the present exemption from customs duty on foreign purchases by U. S. citizens returning from abroad to $50.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 10, 1965

FOR IMMEDIATE RELEASE

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Under the law, export-connected loans of banks are exempted from the tax, assuring the ability of banks to support the efforts of American business to compete more effectively abroad. Also exempted are loans repayable in foreign currencies by foreign branches of U. S. banks and direct investments in foreign subsidiary banks. These exemptions are designed to permit foreign offices of U. S. banks flexibility in conducting their normal operations in the countries where they are located. The President's order also

made clear that the existing exemption for new Canadian issues would not apply to bank loans.

As provided by the law, the President issued the order extending the tax after concluding that commercial bank loans to foreigners had materially impaired the effectiveness of the Interest Equalization Tax by replacing other types of acquisitions which were subject to the tax. (A statement outlining the facts upon which the President made this finding is attached to this release.)

Application of the tax to all credits to Japan with a period of maturity of one year or more would, in the opinion of the President, have such consequences for that country as to threaten to imperil the stability of the international monetary system. Consequently, the President has stated that he will exempt from tax this year up to $100 million of borrowings by, or guaranteed by, the Government of Japan which would otherwise be subject to the tax.

In requesting Congress to extend the Interest Equalization Tax for two years (to expire on December 31, 1967) the President also asked that its scope be extended so as to subject to tax those acquisitions by all U. S. persons of foreign debt obligations with a period to maturity of one year or more. Existing exemptions, including those for export credit, direct investment and loans to less developed countries, will continue to apply.

In order to be certain that the proposed amendments to the Interest Equalization Tax do not serve as an inducement to accelerate acquisitions of foreign debt obligations, the President requested Congress to make these amendments effective tomorrow, February 11, 1965. However, these amendments would not be effective with respect to acquisitions made pursuant to firm commitments in effect as of February 10, 1965.

A bill incorporating the proposed amendments to the Interest Equalization Tax is being submitted by Secretary Dillon to Congress. (A detailed outline of this measure and of the President's Executive Order are attached.)

As indicated by the President in his message, the Treasury will shortly submit to Congress a bill embodying specific proposals to improve the tax treatment of foreign investment in U. S. corporate securities, generally along the lines recommended by a special task force appointed by President Kennedy.

Secretary Dillon also noted that the Department of Justice will shortly propose legislation to the Congress that would provide assurance that voluntary efforts, and any voluntary agreements, undertaken by financial institutions as part of the President's program will not be subject to antitrust action.

February 10, 1965

ANALYSIS OF
LONG-TERM U. S. COMMERCIAL BANK LOANS TO FOREIGNERS

The President's action in extending the application of the Interest Equalization Tax to long-term bank loans to foreigners reflects increasing evidence that such loans have materially impaired the effectiveness of the tax. A sizeable portion of these loans appears to have substituted, directly or indirectly, for other forms of borrowing subject to the Interest Equalization Tax.

Data now available indicate that the outstanding volume of loans maturing in more than one year by domestic offices of U.S. banks to foreign borrowers in developed countries rose by over $650 million during 1964. As shown by Table I, this compares to an earlier peak of $122 million for years before the IET was proposed. The net outflow in such loans to developed countries in the 18 months since the announcement of the tax was over four times the increase during the 18 months preceding the announcement of the Interest Equalization Tax. Moreover, recent increases in the volume of new U.S. commercial bank term loan commitments to foreigners, which totaled over $1 billion to borrowers in developed countries during 1964, point toward a further acceleration of the upward trend. The distribution of these commitments by area and purpose is shown on Table II.

While some portion of the accelerated volume of foreign lending may be accounted for by other factors, analysis of the size, purpose, type of borrower, and terms of individual loan commitments indicates that a substantial and increasing portion of recent loans are close and direct substitutes for new security issues. In this connection it is interesting to note that only 15 percent of the new term loan commitments to industrial countries last year was used to finance U.S. exports. By contrast 28 percent was used for plant expansion.

In addition, study of the pattern of the rising volume of foreign loans to particular countries or areas, as against the background of a declining volume of new issues from the same areas, suggests that demands for credit diverted from the capital markets have in some instances indirectly returned to the U.S. market via bank loans.

In view of the above, it seems clear that a significant and growing portion of the foreign demand for longer-term capital has been diverted, directly or indirectly, from the securities market to U. S. banks since announcement of the Interest Equalization tax.

TABLE I

CHANGES IN OUTSTANDING LONG-TERM U. S.
COMMERCIAL BANK LOANS TO FOREIGNERS a/
(Millions of dollars)

	Change During Period					
	1959	1960	1961	1962	1963	1964
All Countries:	183	153	136	126	568	966
(of which)						
Developed:	14	-2	122	116	493	669
Continental Western Europe	6	36	132	31	381	465
Japan	3	3	5	50	126	142
Other Developed	5	-41	-15	35	-14	62

a/ Total long-term claims, including loans, previous to 1963.

TABLE II

LONG-TERM U. S. COMMERCIAL BANK COMMITMENTS TO ALL COUNTRIES AND TO DEVELOPED COUNTRIES DURING 1964

(Millions of dollars)

By Area

	QUARTERS I	II	III	IV	Total
All Countries:	441	336	501	781	2059
(of which) Developed:	273	169	302	413	1157
Continental Western Europe	120	103	162	282	667
Japan	85	40	63	61	249
Other Developed	68	26	77	70	241

By Purpose

	Financing of U. S. Exports	Third Country Trade	Ship Financing	Plant Financing	Working Capital	Debt Re-financing	Other	Total
All Countries:	363	81	209	490	248	181	487	2059
(of which) Developed	178	65	152	329	171	90	172	1157

February 10, 1965

DESCRIPTION OF EXECUTIVE ORDER AFFECTING COMMERCIAL BANKS AND PROPOSED AMENDMENTS TO INTEREST EQUALIZATION TAX ACT

In his Balance of Payments Message today, the President announced that he has exercised the authority granted to him under the Interest Equalization Tax Act to extend that tax to acquisitions by United States commercial banks made after February 10, 1965 of debt obligations of foreign borrowers with one year or more remaining to maturity. He also proposed amendments to the Interest Equalization Tax Act which would extend the tax for two years beyond the present expiration date of December 31, 1965, and apply it to acquisitions by any United States person of foreign debt obligations with one year or more remaining to maturity. These amendments would also be effective with respect to acquisitions made after February 10, 1965.

Executive Order Extending the Tax to Commercial Banks

The Interest Equalization Tax was extended to United States commercial banks which acquire foreign debt obligations maturing in one year or more under a provision contained in section 4931 of the Internal Revenue Code authorizing the President, by Executive order, to revoke in whole or in part the statutory exclusion from the tax for acquisitions of debt obligations of foreign obligors by commercial banks in the ordinary course of the banking business. Under the Executive order, acquisitions of debt obligations of foreign obligors with a period to maturity of one year or more, including time or savings deposits placed with foreign banks, will be taxable

at the rates set forth in sections 4911 and 4931 of the statute if made at offices of commercial banks located in the United States. Acquisitions of such debt obligations with periods remaining to maturity of one year or more repayable in United States currency which are made at foreign branches of such banks will also be taxable. Acquisitions of debt obligations repayable exclusively in foreign currencies made by foreign branches remain exempt from the tax. Similarly, the order has not extended the tax to transfers by United States commercial banks to foreign banking subsidiaries in which they have a direct investment (see section 4915(c) of the Code).

Regulations under this order have been promulgated today. Further regulations will be issued within the next week which will require United States commercial banks with foreign branches or subsidiaries to report to the Treasury Department information relating to the flow of funds from commercial bank home offices in the United States to foreign branches or subsidiaries after the date of the Executive order.

The Executive order also results in the taxing of loans with a period remaining to maturity of one year or more made to Canadian borrowers by commercial banks in the United States, as well as the placement by such banks of time or savings deposits with one year or more remaining to maturity with Canadian banks. The Executive order makes clear that a prior Executive order exempting all Canadian

original or new issues from Interest Equalization Tax shall not apply to commercial bank loans.

In accordance with section 4931(d)(1) of the Internal Revenue Code, the Executive order also continues the exemption for loans made by commercial banks in connection with export transactions involving the performance of services by United States persons or the sale of property manufactured, produced, grown, extracted, created or developed primarily in the United States. In order to qualify for this exemption, such export credit extensions must meet the tests now set forth in section 4914(c)(1)(B), (2), (3), (4) or (5) or section 4931(d)(1) of the Code and section 147.9-2 of the Regulations. Acquisitions of foreign debt obligations by United States commercial banks pursuant to commitments undertaken by such banks before August 5, 1964 are exempt, provided that such commitments were unconditional, or subject only to conditions contained in a formal contract which had been partially performed, or as to which before August 5, 1964, the bank had signified its approval in writing of all principal terms of the acquisition. See section 4931(d)(3) of the Code and section 147.9-3 of the Regulations.

In accordance with the terms of the Interest Equalization Tax Act, the Executive order does not affect the statutory exclusions available to any United States person under sections 4914, 4915 and

4916 of the Internal Revenue Code. These exclusions include the acquisition of a debt obligation issued or guaranteed by a less developed country, or of an individual or partnership resident in such a country, or of a less developed country corporation. In accordance with section 4931(c), however, acquisitions by commercial banks of foreign debt obligations with periods remaining to maturity between one and three years will not be exempt solely because they were acquired from a United States person.

Interest Equalization Tax Amendments

With respect to the proposed changes in the Interest Equalization Tax contained in the President's Message, an Interest Equalization Tax Extension Bill has been transmitted to Congress as an amendment to Chapter 41 of the Internal Revenue Code (as added by Public Law 88-563, 88th Congress, 2nd Session, enacted September 2, 1964). This bill includes only those changes which are essential to the implementation of recommendations contained in the President's Message. These amendments extend the tax for two additional years and extend its coverage to the acquisition by any United States person of foreign debt obligations with periods remaining to maturity of one year to three years.

The provision for taxing debt obligations with one to three years remaining to maturity, would apply with respect to acquisitions made after February 10, 1965. Provision is made, however, to exempt

from the new provisions acquisitions made pursuant to firm commitments existing on February 10, 1965.

Amendments in Detail

The specific changes recommended in the new bill are as follows:

(1) Imposition of Tax -- On or after February 11, 1965, debt obligations of foreign obligors with periods remaining to maturity of one year or more which are acquired by United States persons will be subject to Interest Equalization Tax. Acquisitions of foreign debt obligations before that date are subject to the tax only if they have periods remaining to maturity of three years or more at the time of their acquisition.

The following rate schedule applies to acquisitions of foreign debt obligations with a period to maturity of between one and three years, made after February 10, 1965. (These are the same rates made applicable to commercial bank acquisitions of debt obligations with the same maturities by the Executive order issued by the President):

If the period remaining to maturity is:	The tax, as a percentage of actual value is:
At least 1 year, but less than 1-1/4 years	1.05 percent
At least 1-1/4 years, but less than 1-1/2 years	1.30 percent
At least 1-1/2 years, but less than 1-3/4 years	1.50 percent
At least 1-3/4 years, but less than 2-1/4 years	1.85 percent
At least 2-1/4 years, but less than 2-3/4 years	2.30 percent
At least 2-3/4 years, but less than 3 years	2.75 percent

(2) Insurance Company Fund of Assets Designations -- Section 4914(e) of the Code will be amended, effective after February 10, 1965, to conform the rules covering an insurance company maintaining an exempt fund of assets to the changes proposed with respect to the scope of the tax.

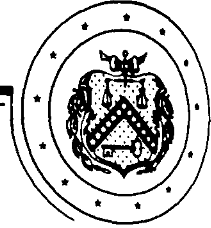
(3) Demand Obligations -- A conforming change in the definition of the period remaining to maturity of demand obligations in section 4920(a)(7)(B)(iv) provides that any debt obligation payable on demand (including bank deposits) shall be considered to be less than one year.

(4) Pre-existing Commitments -- The proposed amendments do not apply to otherwise taxable acquisitions by United States persons (other than commercial banks) made after February 10, 1965, pursuant to commitments to acquire which became fixed on or before that date, or which were subject only to conditions such as customary closing conditions or the execution of formalizing documents which would not effect a change in the principal terms. For example, the amendments would not apply to an acquisition by a United States person of two-year notes of a foreign obligor made pursuant to an agreement to acquire which, on or before February 10, 1965, the United States lender had approved and as to which it had sent to the foreign borrower written evidence of such approval (e.g., in the form of a

commitment letter or draft purchase contract) which referred to the principal terms of agreement, provided that such agreement was subject only to the execution of formal documents and customary closing conditions, and contained all of the principal terms of the actual acquisition.

(5) Returns -- Amendments to section 6011(d) and section 6076 of the Internal Revenue Code also provide for the filing of a return for the calendar quarter in which these proposed amendments may be enacted, which would report any new tax with respect to acquisitions made after February 10, 1965, which may become due pursuant to the proposed tax on acquisitions of one to three year debt obligations. The United States person who becomes liable for such new tax would report his tax liability on or before the end of the calendar month following the calendar quarter in which these amendments are enacted or at such later time as may be specified in regulations prescribed by the Secretary or his delegate.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 11, 1965

FOR IMMEDIATE RELEASE

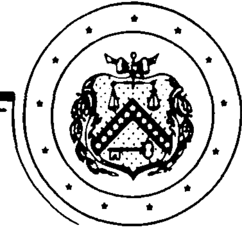
TREASURY DECISION ON CRUDE SULFUR
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of crude sulfur from Canada. A notice of a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Canada is not being withheld at this time.

The dollar value of imports of the involved merchandise received during the period January through August 1964 was approximately $5,500,000.

TREASURY DEPARTMENT



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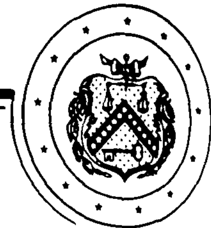


WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

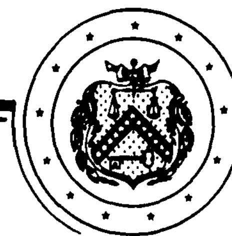
TREASURY DECISION ON FERROCHROMIUM
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of ferrochromium, not containing over 3 percent by weight of carbon, from France. A notice of a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from France is not being withheld at this time.

No merchandise of the type under investigation was entered for consumption in the United States. All importations, and they were very small in amount, were entered into bonded warehouse for subsequent exportation to other countries.

TREASURY DEPARTMENT



WASHINGTON D.C.

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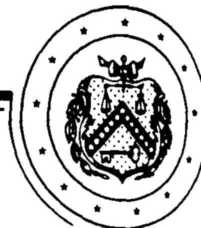
No merchandise of the type under investigation was entered for consumption in the United States. All importations, and they were very small in amount, were entered into bonded warehouse for subsequent exportation to other countries.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

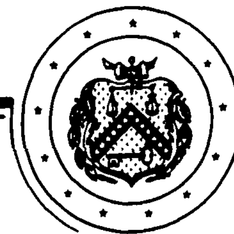
TREASURY DECISION ON APPLE JUICE
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of apple juice from Canada, manufactured by Sun-Rype Products Ltd., Kelowna, B.C., Canada. A notice of intent to close this case with a determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Canada is being withheld at this time.

The dollar value of imports of the involved merchandise received during the period December 1, 1963, through June 1964 was approximately $230,000.

TREASURY DEPARTMENT



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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE February 12, 1965

SUBSCRIPTION AND ALLOTMENT FIGURES FOR TREASURY'S CURRENT CASH OFFERING

The Treasury Department today announced the subscription and allotment figures with respect to the current offering of 4% Treasury Notes of Series E-1966, due November 15, 1966.

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

Federal Reserve District	Total Subscriptions Received	Total Allotments
Boston	$ 466,867,000	$ 77,262,000
New York	4,736,617,000	1,169,034,000
Philadelphia	311,775,000	54,768,000
Cleveland	592,496,000	103,888,000
Richmond	323,999,000	56,195,000
Atlanta	412,634,000	90,978,000
Chicago	1,844,131,000	327,143,000
St. Louis	269,088,000	61,846,000
Minneapolis	177,388,000	42,107,000
Kansas City	243,367,000	55,219,000
Dallas	193,982,000	35,726,000
San Francisco	1,062,792,000	179,066,000
Treasury	619,000	419,000
Totals	$10,635,755,000	$2,253,651,000

Subscriptions by investor classes:

States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States which received full allotment ----------------	$ 56,403,000
Commercial Banks (own account) ---------	5,906,504,000
All Others ----------------------------	4,147,248,000
Total	$10,110,155,000
Fed. Res. Banks & Govt. Inv. Accts. ----	525,600,000
Grand Total	$10,635,755,000

D-1504

~~BETA - MODIFIED~~

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on February 25, ~~(16)~~ 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 25, 1965 ~~(17)~~. Cash

~~Exhibit 2-A~~

~~BETA - MODIFIED~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, February 15, 1965

~~XXXXXXXXXXXXXXXXX(1)XXXXXXXXXXXXXXXXXXX~~

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 $ 2,200,000,000 ~~(2)~~, or thereabouts, for cash and in exchange for Treasury bills maturing February 25, 1965 ~~(3)~~, in the amount of $ 2,102,202,000 ~~(4)~~, as follows:

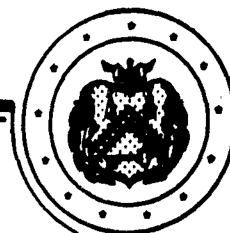
91 ~~(5)~~ -day bills (to maturity date) to be issued February 25, 1965 ~~(6)~~, in the amount of $ 1,200,000,000 ~~(7)~~, or thereabouts, representing an additional amount of bills dated November 27, 1964 ~~(8)~~, and to mature May 27, 1965 ~~(9)~~, originally issued in the amount of $ 1,000,102,000 ~~(10)~~, the additional and original bills to be freely interchangeable.

182 ~~(11)~~ -day bills, for $ 1,000,000,000 ~~(12)~~, or thereabouts, to be dated February 25, 1965 ~~(13)~~, and to mature August 26, 1965 ~~(14)~~.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Friday, February 19, 1965 ~~(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

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 15, 1965

FOR IMMEDIATE RELEASE

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D-1505

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on February 25, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 25, 1965. 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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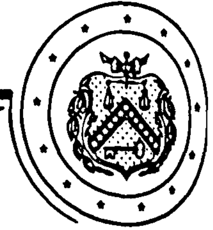
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Tuesday, February 16, 1965.

February 15, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series o Treasury bills, one series to be an additional issue of the bills dated November 19, 1964, and the other series to be dated February 18, 1965, which were offered on February 9, were opened at the Federal Reserve Banks on February 15. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, o thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 20, 1965		182-day Treasury bills maturing August 19, 1965	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equi Annual Rate
High	99.010	3.916%	97.981	3.994%
Low	99.001	3.952%	97.968	4.019%
Average	99.005	3.936% 1/	97.970	4.015% 1/

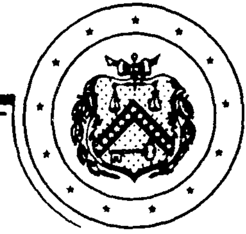
5% of the amount of 91-day bills bid for at the low price was accepted
68% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 18,299,000	$ 18,299,000	$ 60,130,000	$ 22,130,C
New York	1,430,521,000	732,449,000	1,585,841,000	711,721,C
Philadelphia	29,685,000	17,685,000	16,950,000	8,950,(
Cleveland	23,751,000	23,751,000	61,967,000	44,423,(
Richmond	14,373,000	14,373,000	3,156,000	3,156,C
Atlanta	45,463,000	43,563,000	22,502,000	14,756,C
Chicago	312,660,000	177,785,000	237,943,000	78,111,C
St. Louis	34,260,000	29,260,000	11,795,000	7,795,(
Minneapolis	19,010,000	17,060,000	8,644,000	6,484,(
Kansas City	26,263,000	26,263,000	17,996,000	10,408,(
Dallas	23,197,000	18,247,000	10,882,000	5,382,(
San Francisco	96,296,000	81,296,000	123,958,000	87,038,(
TOTALS	$2,073,778,000	$1,200,031,000 a/	$2,161,764,000	$1,000,354,(

a/ Includes $253,645,000 noncompetitive tenders accepted at the average price of 99.(
b/ Includes $93,155,000 noncompetitive tenders accepted at the average price of 97.9
1/ On a coupon issue of the same length and for the same amount invested, the return these bills would provide yields of 4.03%, for the 91-day bills, and 4.16%, for t 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.

TREASURY DEPARTMENT



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New York	1,430,521,000	732,449,000	:	1,585,841,000	711,721,000
Philadelphia	29,685,000	17,685,000	:	16,950,000	8,950,000
Cleveland	23,751,000	23,751,000	:	61,967,000	44,423,000
Richmond	14,373,000	14,373,000	:	3,156,000	3,156,000
Atlanta	45,463,000	43,563,000	:	22,502,000	14,756,000
Chicago	312,660,000	177,785,000	:	237,943,000	78,111,000
St. Louis	34,260,000	29,260,000	:	11,795,000	7,795,000
Minneapolis	19,010,000	17,060,000	:	8,644,000	6,484,000
Kansas City	26,263,000	26,263,000	:	17,996,000	10,408,000
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1506

FOR RELEASE UPON DELIVERY
EXPECTED ABOUT 10:00 A.M. EST

STATEMENT OF ROBERT A. WALLACE
ASSISTANT SECRETARY OF TREASURY
BEFORE THE HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE ON LEGAL AND MONETARY AFFAIRS

FEBRUARY 16, 1965

THE CURRENT COIN SITUATION

MR. CHAIRMAN, MY STATEMENT SHALL BE BRIEF, ALTHOUGH OF COURSE I SHALL BE GLAD TO ANSWER ANY QUESTIONS FROM MEMBERS OF THE COMMITTEE. I SHALL TALK ABOUT THE GENERAL COIN SITUATION, WHAT WE HAVE DONE ABOUT IT, WHERE WE STAND TODAY AND THE PROSPECTS, SO FAR AS WE CAN TELL, FOR THE FUTURE. I THINK IT WOULD BE BETTER TO LEAVE ALL QUESTIONS PERTAINING TO THE OPERATION OF THE MINTS TO MISS EVA ADAMS, THE DIRECTOR OF THE MINT.

YOU WILL RECALL THAT BEFORE LAST YEAR OUR GENERAL PLAN WAS TO BOOST MINT PRODUCTION AS EFFICIENTLY AND ECONOMICALLY AS POSSIBLE WHILE PLANNING TO MEET OUR LONG-RANGE NEEDS WITH THE CONSTRUCTION OF A NEW MINT IN PHILADELPHIA. IN THE FIVE-YEAR PERIOD BETWEEN 1959 AND 1964, THE MINT VERY NEARLY TRIPLED THE PRODUCTION OF COINS, FROM 1-1/2 BILLION TO 4-1/3 BILLION ANNUALLY.

THESE PRODUCTION INCREASES WERE MADE IN ORDER TO BUILD UP OUR INVENTORY OF COINS SO THAT WE COULD MEET THE PERIODIC SEASONAL AND REGIONAL SHORTAGES AS THEY OCCURRED. THE DEMAND FOR COINS OF COURSE, HAS BEEN GROWING STEADILY BECAUSE OF THE INCREASED USE OF VENDING MACHINES, A GROWING POPULATION AND A SIZABLE JUMP IN THE AMOUNT OF COMMERCIAL ACTIVITY.

LAST MARCH, HOWEVER, TWO THINGS HAPPENED ALMOST SIMULTANEOUSLY WHICH TOUCHED OFF BROAD NEW INTEREST IN COINS. THE FIRST WAS THE INTRODUCTION OF THE KENNEDY HALF DOLLAR WHICH WAS MUCH MORE POPULAR AS A KEEPSAKE THAN SOME HAD ANTICIPATED. THE SECOND OCCURRENCE, ALSO IN MARCH, WAS THAT THE TREASURY EXHAUSTED ITS SUPPLY OF SILVER DOLLARS. IN APRIL AND MAY WE COULD SEE MUCH INCREASE IN THE ACTIVITIES OF COIN SPECULATORS WHO BOUGHT UP NEW COINS BY THE ROLL AND BY THE BAG, FURTHER INTENSIFYING THE GENERALLY TIGHT SITUATION.

AFTER DISCUSSING THE MATTER WITH THE PRESIDENTS OF THE TWELVE FEDERAL RESERVE BANKS, WE BECAME CONCERNED THAT THE SHORTAGE MIGHT REACH CRISIS PROPORTIONS IN THE FALL -- ESPECIALLY DURING THE CHRISTMAS SHOPPING SEASON. IT WAS THIS POSSIBILITY WHICH PROMPTED THE TREASURY TO INSTITUTE A CRASH PROGRAM TO DOUBLE THE PRODUCTION OF COINS WITHIN A YEAR. MISS ADAMS WILL BE GLAD TO GIVE YOU THE DETAILS OF THAT PROGRAM, BUT I AM PLEASED TO ANNOUNCE THAT WE ARE ON SCHEDULE. COIN PRODUCTION IN THE LAST SIX MONTHS OF CALENDAR YEAR 1964 JUMPED NEARLY 60% OVER THE SAME PERIOD A YEAR EARLIER.

I THINK THE ENTIRE COUNTRY OWES A DEBT OF GRATITUDE TO OUR MINT DIRECTOR, MISS ADAMS, AND TO ALL THE EMPLOYEES IN THE BUREAU OF THE MINT FOR THEIR TREMENDOUS GAINS IN PRODUCTION UNDER THE CRASH PROGRAM. CONSIDER, FOR EXAMPLE, THAT IN THE LAST SIX MONTHS OF CALENDAR 1964, THE TWO MINTS IN PHILADELPHIA AND DENVER PRODUCED 3,431,061,000 COINS. THUS, IN A HALF YEAR THEY PRODUCED MORE COINS THAN ARE NORMALLY PRODUCED IN A WHOLE YEAR.

AND THEY ARE KEEPING TO THE SCHEDULE. BY JUNE 30 THEY WILL HAVE PRODUCED 8 BILLION COINS AND THEIR MACHINES WILL BE GOING AT AN ANNUAL RATE OF OVER 9 BILLION.

THANKS TO THIS CRASH PROGRAM AND TO THE MINT EMPLOYEES WHO HAVE BEEN WORKING AROUND THE CLOCK 24 HOURS A DAY, 7 DAYS A WEEK, WE WERE ABLE TO AVERT A COIN CRISIS LAST FALL.

MORE RECENTLY WE HAVE RECEIVED ENCOURAGING FLOW BACK FIGURES FROM THE FEDERAL RESERVE SYSTEM. THESE FIGURES INDICATE THAT, COMPARED WITH A YEAR AGO, THE FEDERAL RESERVE SYSTEM'S INVENTORY OF PENNIES HAS TRIPLED. ALL TWELVE FEDERAL RESERVE PRESIDENTS HAVE TOLD ME THAT THE PENNY SITUATION IS APPARENTLY UNDER CONTROL AND THE ENTIRE COIN SITUATION HAS GREATLY IMPROVED, BUT THAT COINS OTHER THAN PENNIES REMAIN SOMEWHAT TIGHT.

THIS BEARS OUT INFORMATION WE HAVE RECEIVED. LAST SUMMER ROLLS OF 1964 COINS WERE BEING ADVERTISED AT FANTASTIC PREMIUMS. TODAY, AS A RESULT OF LEGISLATIVE AUTHORITY GIVEN TO THE SECRETARY OF THE TREASURY TO CONTINUE THE 1964 DATE ON COINS, THERE HAS BEEN A DECIDED SOFTENING OF THE SPECULATIVE MARKET FOR 1964 COINS. EVEN THOUGH DEALERS ARE STILL ADVERTISING THEM AT PREMIUMS, ONLY THE MORE GULLIBLE ARE BUYING THEM.

BEFORE LAST FALL, IT WAS VERY RARE TO SEE 1964 COINS IN CIRCULATION BECAUSE SO MANY HAD BEEN BOUGHT UP FOR THE PURPOSE OF HOARDING AND SPECULATING ON FUTURE INCREASES IN NUMISMATIC VALUE. EVEN IN THE CHANGE WHICH YOU AND I RECEIVE IN OUR DAILY COIN TRANSACTIONS WE NOW SEE A GREATER AND GREATER PROPORTION OF 1964 COINS SHOWING UP.

AND WHAT OF THE FUTURE? THERE IS NO QUESTION IN MY MIND BUT THAT IF THE COIN SITUATION ALONE WERE ALL WE HAD TO DEAL WITH, OUR PRODUCTION SCHEDULE COULD EASILY DEMOLISH WHAT REMAINS OF THE COIN SHORTAGE. THE ONLY POSSIBLE DIFFICULTY IS WHAT MIGHT HAPPEN WHEN WE CHANGE OUR COIN ALLOYS. THEREFORE, AS A PART OF OUR GENERAL STUDY OF COINAGE ALLOYS AND THE SILVER SITUATION, WE SHALL ALSO HAVE TO ASSESS WHETHER OR NOT IT WILL BE NECESSARY TO BOOST OUR COIN PRODUCTION STILL FURTHER. I KNOW THIS CAN BE DONE IF NECESSARY. THIS YEAR WE ARE DOUBLING THE PRODUCTION OF COINS. IF NECESSARY AND IF WE RECEIVE THE NECESSARY SUPPORT IN CONGRESS, IT WOULD BE POSSIBLE FOR US TO DOUBLE THIS PRODUCTION STILL AGAIN. THUS, WE COULD NOT ONLY DOUBLE BUT COULD EVEN REDOUBLE OUR COIN PRODUCTION IF THIS IS REQUIRED TO PREVENT FUTURE SHORTAGES.

MEANWHILE, WE HOPE TO HAVE COMPLETED OUR COINAGE ALLOY STUDY SOME TIME IN APRIL. WE HAVE TESTED AND ARE TESTING NUMEROUS ALLOYS AND MATERIALS, SOME OF THEM IN PRODUCTION-SIZE RUNS. WE HAVE BEEN IN TOUCH WITH THE SILVER USERS, THE SILVER PRODUCERS AND THE VENDING MACHINE COMPANIES. OUR RECOMMENDATIONS WILL TAKE INTO ACCOUNT ALL CONSIDERATIONS AFFECTING THE VARIOUS INTERESTS AND MAKE WHAT WE HOPE WILL BE SOUND PROPOSALS FOR DEALING WITH THE SITUATION.

I REGRET, MR. CHAIRMAN, THAT IT IS TOO SOON TO GET INTO THE DETAILS OF THAT STUDY. YOU MAY BE SURE, HOWEVER, THAT WE WILL MAKE IT AVAILABLE TO THIS COMMITTEE THE MINUTE IT IS COMPLETED.

THANK YOU VERY MUCH.

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BETTER MANAGEMENT

Remarks by
A. E. Weatherbee, Assistant Secretary for Administration,
Treasury Department
before the Federal Executive Board of Dallas-Fort Worth, Texas

February 18, 1965

I am always glad of an opportunity to meet with one of the Federal Executive Boards. It is a particular pleasure to meet here today with a Board whose Chairman is a member of my own Department.

The Treasury has been a strong source of support for the Federal Executive Boards since their very beginning. We had experimented with similar groups within the Department, and we were perhaps more aware than others of the potentialities, and also of the possible pitfalls, of the Boards.

When plans to form the Boards were first announced, members of my staff went immediately to Boston, Philadelphia, and New York to ask our field heads for their ideas and suggestions on the possible scope, activities and organization of the Boards. As a result, when I met later with an interagency group to discuss these matters, the reports of my staff had convinced me that prospects were indeed good for setting up these Boards on a workable, realistic basis.

The success of the Boards has been of special interest to the Treasury because of our large investment of staff time in this endeavor. The Treasury has no departmental regional structure at the field level. Since 10 of our 12 bureaus have field offices, we could conceivably have up to 10 representatives on a Board. Of 610 FEB members, about 90--or 14%--are Treasury people.

Because of our multiple representation on the Boards, I appointed one Treasury member on each Board to serve as my personal liaison representative. Each reports directly to me on the activities of his Board. Each bureau also has appointed one person at headquarters to work with my office on Board matters.

There are a number of groups in Washington that bring together officials who share similar responsibilities. I am a member of one such group--the Executive Officers Group--and I know from my own experience the value of such organizations. This group is composed of the heads of administration in the largest agencies. Until its formation some of them didn't even know their own counterparts in other agencies. We now have at least a speaking acquaintance and when a common problem comes up, it is a great help to be able to pick up the telephone and swap ideas freely and frankly with Leo Werts of Labor or Joe Robertson at Agriculture, or one of several others.

It is in part through such group activities that people get to know each other in the various Washington agencies. The resulting network of personal relationships is highly effective in getting a lot of the government's work accomplished.

There have been few official mechanisms in the field to promote this kind of cooperation. In the areas where they exist, the Federal Executive Boards have helped to fill this gap.

In general, the Treasury reaction to the Boards is that they are much more successful than the pessimists had expected but perhaps not as universally successful as the optimists had hoped. As in any other collective effort, the localities--and the individuals involved--appear to get out of the Boards pretty much what they put into them.

From all reports the Dallas-Fort Worth Board has a good record indeed. You have some active committees, one of which is doing pioneer work in facilitating university relationships on recruitment and training matters. You have undertaken a number of interagency studies and assisted each other in your employee placement problems. You have a particularly interesting project in the workshops you have set up for the exchange of management ideas between the government and private industry. These are just a few of your many projects that have generated widespread interest.

The Boards have been favored with an abundance of one ingredient which should insure their success. They have had support from the highest levels in the government. The FEBs were first announced by President Kennedy. As one of his first acts after assuming office, President Johnson affirmed his support of the Boards.

With President Johnson's commitment to cost reduction, it is particularly fortunate that the FEB machinery exists in the field for the exchange of information on management improvement and for joint improvement projects.

This brings me to the core of my remarks today. Do not be misled by the somewhat impressive topic--"Better Management"--under which I have been billed. I will simply make a few random observations about the President's economy program and tell you something about the management improvement system in my own Department.

There has never been any doubt that the President means business with his economy program. In the first days of his Administration he established what has now become a familiar pattern. He announces a phase of his economy program and either links it, or follows it closely, with action measures designed to put teeth into the program. According to an item in the "Washington Post," he even fines members of his family $1 each time one of them forgets to turn off the lights!

In the President's words, he "covets a reputation for good management," and this goal is high on his list of priorities.

It is not uncommon for our national leaders to express full support for government economy measures. To be for economy ranks almost as high as being for motherhood in public appeal. What is uncommon is that we now have a President who takes a deep personal interest in good management, a President who personally initiates many economy measures. I understand that Bureau of the Budget staff members are burning the midnight oil regularly trying to keep up with him.

The President was sworn into office for his first term on November 22, 1963. Eight days later he issued his first message on Thrift and Frugality. These words, thrift and frugality, have become the bywords of his Administration. In the President's language:

> "I have pledged that the Executive Branch will be administered with the utmost thrift and frugality; that the government will get a dollar's value for a dollar spent; and that the government will set an example of prudence and economy."

In carrying out this pledge, the President announced his intention to do four things: to keep budget requests at a bare minimum; to support the departments' efforts to achieve administrative or legislative changes; to support adequate salary scales; and to accord increased recognition where deserved. He has followed through on each of these promises.

A month following his Thrift and Frugality memorandum, the President issued a requirement for quarterly reports from the agencies on the number of employees and on actions to improve management.

My office has the central responsibility for the management improvement program in the Treasury. This is one report we are glad to prepare. Without the silent, unrelenting pressure of a reporting system that extends from the bottom to the very top of the government, it is like pushing a ten ton truck uphill to keep a management improvement program going on a systematic, continuing basis.

My office has long required quarterly reports from the Treasury bureaus on management improvement projects completed and scheduled. Summaries of these reports now go to the President. He reads them. From time to time he writes Secretary Dillon to comment on an item, to commend his efforts, or to request further data. He was sufficiently impressed with Treasury's record to ask the Secretary to describe the Treasury's management improvement system at a Cabinet meeting.

The President has continued to hammer away on the economy theme in Cabinet meetings. He stresses that Cabinet members must give the matter their personal attention. He reports to the Cabinet from time to time on the progress of cost reduction efforts. In one meeting he asked them "to be as unsatisfied as a little boy's appetite" in their efforts to increase economy and efficiency.

The President has made it clear that he is interested in economy all down the line. He has said that no matter how small an agency is he wants it managed as if it dwarfed everything in the budget. He wants economy practiced in such small matters as putting out the lights and limiting filing cabinets as well as in such large matters as scrutinizing the need for entire programs.

There has always, perhaps, been a tendency--in government and out--to think that top people should pay attention only to large economies, and that small economies should be made by those down the line. But particularly in a government setting, this is not necessarily the way the ball bounces. Sometimes the only way to focus proper attention on the need for the small economies is to show an interest in them, and to set an example, at the top. I think this is what President Johnson is trying to do.

Let me tell you an incident that illustrates this. A member of my staff played bridge not long ago with the postmaster in a small town in Virginia. The postmaster said that she had been trying unsuccessfully for years to get her employees to turn off the lights when they went home for the night. Not being the "I told you so" type, she had not mentioned the matter since the President's announcement. But since that

announcement, she reported jubilantly, the lights had not been left on once.

This is the kind of economy that the President meant when he said, "We are tightening our belts in the government. We are making every dollar stretch as far as it will go. We are not brushing aside any saving, no matter how insignificant it might seem."

The other truth here is that small economies do add up to large economies when applied government-wide. A brief drive by the President to eliminate excess publications had netted savings of $1.8 million the last I heard, with the Defense figures not yet in and the drive continuing. And if you or I ever reach a point where we don't think that is a lot of money, I think we should leave the government for a while and reorient our sense of values.

The President also has emphasized that in building the Great Society, every Federal agency should be bold and imaginative in formulating new ideas and programs and in carrying out tough-minded reforms in existing programs. In a statement last November, he said, and I quote:

> "To be sure, every program needing reform has a pressure group which will fight reform. But _I_ want to make the decisions as to those fights which it will be worthwhile to take on and those which it won't. I want _you_ to give me plenty of such decisions to make."

Again he put teeth into his request by requiring a special report from each agency head on such suggested reforms.

This is the type of support that administrators dream of. The Treasury pulled out and dusted off economy proposals that have been shelved for years. I am sure this went on throughout the government. Results already are evident in reports of the closing all over the country of marginal government offices and institutions.

As a result of this personal leadership of the President, management improvement efforts throughout the government have received a shot in the arm. In my own Department, with exceptionally strong interest and leadership from Secretary Dillon, documented management improvement savings almost doubled from $15.9 million in fiscal year 1963 to $29.5 million in 1964 -- an all-time high for the Treasury.

I might move on now to tell you something about the Treasury's own system to improve management.

As a backdrop, I should first give you a rough sketch of the organization. The Department has about 87,000 civilian and 35,000 military personnel in a dozen operating bureaus with more than 3,000 field installations.

The basic function of the Treasury -- to manage the nation's finances -- has remained unchanged through the years. Two bureaus, the Internal Revenue Service and Customs, are especially concerned with revenue collection. There are two bureaus exclusively concerned with law enforcement, Narcotics and Secret Service, and three fiscal bureaus, Accounts, Treasurer's Office, and Public Debt. In addition, we have two manufacturing operations, the Mint and Bureau of Engraving and Printing. We have an advertising-type bureau engaged in the promotion of savings bonds, and an office that supervises the national banks. Finally, there is a military organization, the United States

Coast Guard, which operates as part of the Navy in time of war.

The Treasury has all of the management problems of a large, exceedingly diverse, and far-flung organization. We can control the way work is scheduled and done, but characteristically the work volume is beyond our control. For example, we cannot control the number of taxpayers or the number of customs inspections. We cannot control the number of checks issued. The demand for coin is determined by the public and by the economy.

Manpower represents 70% of our total operating budget. You can understand, therefore, that manpower utilization is the most significant aspect of our management improvement program.

The Treasury has had a formal management improvement program in effect since 1946, thus predating by several years the legal requirements for such a program. If one characteristic were to be used to describe the program from the first, I believe it would be common sense.

The Treasury program was born in an era when management experts were regarded by many as some new ivory tower nonsense. In such an atmosphere it was necessary to proceed with the greatest caution and finesse to sell the program both in and outside of the Treasury.

The Treasury traditionally has been a highly cost-conscious organization. It has been inhabited by hard-working, conscientious people who firmly believed that they already were giving the public the best service they could at the lowest cost. The problem did not lie in curbing fancy spending habits. In some cases the bureaus

needed to be encouraged to spend more money to strengthen their functions. The problem was to create a climate that was self-critical and open-minded toward change.

In those early days, one bureau, when asked by the Secretary to survey its operations and report all areas of needed improvement, replied in a few short sentences that no improvements were necessary. Not long afterward a management consulting firm was engaged to make a comprehensive survey of this same bureau. The recommendations, which when put into effect resulted in savings of substantially over $1 million, were an eye-opener for all of the bureaus. Thus began the gradual change in attitude which is now so marked throughout the Department.

Because of the wide differences in functions, size, scope, and operating problems of the various bureaus, it was obvious that no one management improvement system would be satisfactory to all. The bureaus were given complete latitude to tailor-make their systems to fit their own needs, within the broad injunction that the system must provide for the systematic and continuous review of their operations to effect improvements.

Early in the management improvement program a Treasury Management Committee was set up, with representation from all parts of the Department. The purpose of the Committee was to get the bureau officials involved in charting the course of the program and thus to stimulate bureau interest and action. I still look to the Committee to get the bureaus' thinking on management problems that arise and as a means of communicating departmental policy.

A useful adjunct of this Committee is a so-called Alternate Group. The main Committee is composed of the person in each bureau primarily charged with responsibility for administrative matters, and is usually the deputy or assistant bureau head. The Alternate Group is made up largely of the persons next in line in the bureaus with responsibility for management improvement staff work. The latter group meets regularly to discuss current management problems. Of late the meetings have taken the form of workshops on matters of common interest, such as long-range planning and manpower utilization.

Several other factors have contributed to the success of the Treasury program.

The program always has had the strong support of the Secretary and other top management officials. I have mentioned already the value of this.

I have also mentioned the advantages of a regular reporting system. The Department has depended strongly on such a system, which regularly projects future plans and reports on past accomplishments. The reports give the various management levels an opportunity to evaluate progress, to give appropriate recognition for outstanding results, and to furnish stimulation where needed.

In line with the principle of decentralization that governs most of our administrative activities, we have not built up large, highly specialized staffs of management analysts at either the departmental or bureau headquarters levels. We have tried to attach management analysts, who are generalists as far as possible, to the lowest levels in the organization that can support such efforts.

These people are thus available on a daily basis to the line operators who are, after all, responsible for the success of the management improvement program. On a less frequent basis, a fresh look may be taken at operations at any level by analysts higher in the organization or from outside firms.

In an organization as large as the Treasury and with so many paperwork operations, widespread participation by employees generally in management improvement efforts is a must. This has been achieved primarily through heavy emphasis on the incentive awards program. The program has paid off in the Treasury, not only in dollar benefits, which are substantial, but in building morale and in keeping the windows open to innovation. Savings through the incentive awards program increased dramatically from $2,150,000 in fiscal 1963 to $3,475,000 in 1964 -- an all-time high for Treasury.

Bureau achievements are recognized in a quarterly Management Newsletter. The Newsletter also serves to exchange information on new techniques.

The Management Analysis Division of the Office of Management and Organization, which is part of my office, provides central leadership and coordination to the program. It also appraises progress and participates in some of the major management surveys as time permits. Although this Division is organized as a separate entity in order not to de-emphasize its management improvement functions, it works closely with the other staff services under my supervision.

These other offices, Budget and Finance, Personnel, and Administrative Services, all participate in varying degrees in management improvement efforts and at times work together on projects. For example, three of the offices under my supervision are responsible for assisting the bureaus in setting up their new position management systems in accordance with recent Budget Bureau requirements.

The budget review process is an occasion for close inquiry into management progress and plans. Staff of the Management Analysis Division sit in on the annual budget hearings at the departmental level. Employment controls are exercised through the requirement of annual employment plans and the setting of ceiling allocations to the bureaus with quarterly limitations and monthly analyses.

Recently the emphasis of the Office of Management and Organization has been on examining the basic roles and missions of the bureaus. During the past two and one-half years, staff from this office has spearheaded or participated in comprehensive surveys of six of the Treasury bureaus and offices, in which 88% of our personnel are employed. One survey, of the Mint, was made by an outside firm. The others were undertaken by teams made up of departmental and bureau staff. These surveys covered the Bureau of Customs, Internal Revenue Service, Coast Guard, Secret Service, and Office of International Affairs.

The Treasury indeed has reason to be proud of the accomplishments of its management improvement program. Here, briefly, are some of its results:

Identifiable annual savings total almost $180 million since the program began.

Civilian employment has decreased in the past 15 years in spite of tremendous increases in work volume in all major activities.

Individual productivity is up substantially with a better quality of service. For example:

The Division of Disbursement tripled employee productivity and reduced the cost of issuing checks by one half (from six cents in 1949 to three cents in 1964).

The Bureau of the Public Debt reduced personnel by 40% in 10 years while its workload doubled on regular Treasury securities and the savings bond workload increased significantly.

The Mint reduced manufacturing costs of coins to about half of the 1951 costs.

The Internal Revenue Service reduced the cost of collecting $100 from $1.12 to $.49 in the past 15 years.

Cost reduction is not, however, our principal goal. Our goal is to increase the effectiveness of management. This I think we are doing.

... The calibre of personnel is higher. The quality of supervision is improved.

... More and better management information is available through technological progress. Decision making is closer to the scene of operations and is more sound.

... The organizational structure and work processes are undergoing constant streamlining.

... There is a higher degree of coordination of Treasury operations both in Washington and the field. The Treasury has become a more unified department instead of a holding company type of organization.

These, in my opinion, are some of the real indicators of better management, not only in the Treasury but throughout the government.

Recently a distinguished academician, who has been in and out of the Federal Service several times, remarked in a meeting that if he were looking for staff he would go first to the best-managed organizations in the country. He said that the Internal Revenue Service would be one of his first ports of call, and added that this would not have been true ten years ago.

This is the kind of tribute that I think should mean more to Frank White and the other key people in his organization than statistics on savings. It is recognition of the terrific impact that qualified people, and sometimes a mere handful of people, can have on an organization in a short period of time. Frank, incidentally, is one of those people and I was delighted to endorse the recommendation which resulted in his receiving the National Civil Service League's coveted award last year.

A talk by a Treasury spokesman would not be complete without a few comments on the payroll savings plan for Savings Bonds. Leadership and direction have a great deal to do with the success of this program also. That is why the Treasury depends so completely on people in your capacities for the success of the program.

The Federal executives in Dallas and Fort Worth have given us fine support. Participation in Dallas is 68.2%, and in Fort Worth 60.2%. Several agencies are flying the Treasury Minute Man Flag, which is given to large groups achieving 90% or more participation. These agencies include the regional office of the General Services Administration, U. S. Army Depot at Fort Worth, and Internal Revenue Service.

Government-wide the results have been good. At the end of September 1964 there were 2.4 million federal employees, military and civilian, enrolled in the Payroll Savings Plan. This represented an increase of nearly 200,000 over a comparable period in 1963. With the enthusiastic leadership of John Macy, we expect an even greater increase in this year's campaign.

That we support the program in the Treasury ourselves is evident from our participation statistics. In the past half dozen years we have steadily increased participation to a new high in 1964 of 93.7%.

All of us in the Treasury who carry a part of the responsibility for managing the public debt are particularly conscious of the contribution the payroll savings program can make to the sound handling of our nation's finances. Today, E and H Savings Bonds account for 22% of the publicly held portion of the debt.

New sales have been holding at consistently high levels, amounting to $4.6 billion last year. This is equivalent to 40% of our total cash financing over the same period. Much of this is in the form of small bonds purchased through the Payroll Savings Plan, which now accounts for some 60% of all E Bond sales.

But, again, the importance of this program will not be found in statistics alone. What this means is that the Treasury has been able to tap an immense source of funds that would otherwise be difficult to reach, and to do so without an abrupt and potentially damaging impact on flows of savings through our financial institutions or to other borrowers.

What is more, these benefits to the Treasury have their counterpart for the individual. He has been afforded a convenient means of obtaining an absolutely safe investment, promptly convertible into cash, at an assured rate of return over a number of years.

The campaign materials you will have at your disposal this year stress the importance of the savings bonds program to the nation as well as to the individual investors. One point that I feel we should get across to government employees is that every citizen buying savings bonds is making a personal contribution to the soundness of the American dollar, and to better debt management on the part of the Treasury. Your efforts on behalf of the Savings Bonds Campaign will be deeply appreciated by my Department.

Now that I have delivered the commercial, I can conclude quickly.

I have talked primarily about the Treasury's progress in management improvement, but our experience is not unique. The last decade and a half have seen a dramatic improvement in federal management. We should be proud of it. We all should talk more about it.

But the fascinating part of our jobs is that there never is an end to the problems. There never is an end to the opportunities for further improvements. That, I believe, is what holds so many able people in the Federal Service in spite of some of the headaches inside and sometimes higher incomes outside. It is fun. It is challenging. And it is satisfying to be making a contribution, however small, in the public interest.

Depreciation Policy

Proper depreciation policy requires that equipment replacement practice be consistent with depreciation deductions, so that deductions for business expenditures reasonably reflect actual costs.

The reserve ratio test provides an objective test of the reasonableness of taxpayer depreciation deductions. The new measures make the reserve ratio test useful to almost all present and future users of the 1962 guideline procedures. Moreover, they give taxpayers substantially more time to adjust their actual depreciation practices by making the reserve ratio test easier to meet during the transitional period.

Thus, all but a few guideline users will be able to take full advantage of the 1962 depreciation liberalizations and to validate their deductions without being obliged to undergo lengthy and detailed examination of their entire depreciation practice by the Internal Revenue Service.

(NOTE: In addition to this release, a supplementary release containing a more detailed description of the proposals and their effects, with examples, is available on request from the Office of Information of the Treasury Department)

The Treasury did not rely solely on the NICB Survey in making its decision. Detailed information on guideline adoption was obtained by analyzing studies by the Internal Revenue Service and by the Commerce Department. In addition, information on the number of firms which would have failed the reserve ratio test in 1965 under the 1962 procedure was drawn from a broad range of larger companies, as well as industry groups. The information obtained covered electric and gas utilities, railroads, and other industries. The information obtained from these varied sources confirmed the high percentage of firms using the 1962 guidelines which would fail to meet the reserve ratio test in 1965 unless action was taken to liberalize the guideline procedure.

Separate values for each of the three liberalizing measures cannot be estimated accurately because the measures will be used in combination. However, if the transitional allowance rule were adopted by itself, it probably would allow taxpayers about three-fourths of the $700 million to $900 million in benefits which they would otherwise lose in 1965 through failure to meet the reserve ratio test. Of the remaining benefit to taxpayers by adding the guideline form and the minimal adjustment rule, probably the bulk of the additional benefit is provided by the new guideline form.

The technical details of the three liberalizing procedures and the new limitation will be published soon by the Internal Revenue Service and will be effective for most taxpayers for the taxable year 1965. These changes are in accordance with the Treasury policy, announced in 1962, of keeping its tax treatment of depreciation as up-to-date as possible.

That policy was stated in the 1962 revision as follows:

> "The experience under the new guideline lives, industry and asset classifications and administrative procedures will be watched carefully with a view to possible corrections and improvements. Periodic reexamination and revision will be essential to maintain tax depreciation treatment which is in keeping with modern industrial practices."

In order to prevent use of such techniques with the guideline procedure taxpayers will not be allowed to use the guideline procedure (beginning in general with the fourth taxable year to which the guideline procedure is applicable, which would be 1965 for calendar year taxpayers) if they use the straight-line method or the sum of the years-digits method -- unless the cost of current acquisitions is recorded in year's acquisition accounts or in item accounts. Accounts depreciated under the declining balance method will not be affected.

The Effect of the New Measures

Without the new liberalization, an estimated 60 percent of larger firms using the guidelines would have failed the reserve ratio test in 1965. Failures under the test would have reduced the total tax benefits in 1965 resulting from the 1962 revision -- estimated at $1.8 billion -- by some $700 million to $900 million.

The three liberalizing measures will allow the great bulk of the firms which would have failed the test in 1965 to meet it. These measures, even taking account of the limitations, will allow such firms some $600 million to $800 million of the benefits which otherwise they would not have been eligible to receive.

At the request of the Treasury, the National Industrial Conference Board last September made a survey of the depreciation practices of several hundred large firms -- chiefly those with assets of $10 million or more. Of the firms surveyed, about 60 percent were found to be using the guideline procedure established in 1962. Since the survey, a number of taxpayers have elected to switch to the guideline procedure, and more are expected to do so. Of these guideline users, about 15 percent would have met the reserve ratio test automatically. About 25 percent more of these guideline users would have been enabled to meet the test with the help of the transitional rule provided in the 1962 revision. Thus some 60 percent of guideline users in the survey would have found themselves unable to meet the test in 1965. Based on NICB data for larger firms, with the application of the new liberalizing changes, some 95 percent of all adopters will be able to meet it with the help of the new guideline form or transitional allowance rule or both. That will leave only about 5 percent of all guideline users unable to meet the liberalized test in 1965.

standard ratio is determined from the reserve ratio table or from the guideline form. In either case, the upper limit is stated in percentage points. The transitional allowance rule adds a certain number of percentage points to this limit. The additional number of percentage points for 1965 is 15. This number will gradually -- very slowly at first -- be reduced to zero over a period of years equal to a guideline life. (This transitional allowance is measur in percentage points -- not percent. Thus, it will be 15 points regardless of the old upper limit figure to which it is added. It is in percentage points because the reserve ratio itself is expres in percentage points both in the table and in the form.)

For example, if under the 1962 provisions the taxpayer found I had an upper limit of 60 percent on the reserve ratio test for 196 he could still meet that test if his actual reserve ratio turned out to be 75 percent or less, because of the additional 15 percent points added by the transitional allowance rule.

The "Minimal Adjustment Rule"

The second new transitional rule -- the minimal adjustment ru -- is designed to help those taxpayers who cannot meet the reserve ratio test during the transitional period even with the benefit of the transitional allowance rule. This minimal adjustment rule is more liberal than the previous adjustment rule which it replaces. The old rule allowed the Internal Revenue Service to increase the life used by the taxpayer by as much as 25 percent if the taxpayer could not meet the reserve ratio test or otherwise justify the guideline life he is using to calculate deductions. (Increasing the life automatically reduces the depreciation deduction the taxpayer can claim in any single year because it spreads the total amount deductible over the longer period.)

Instead of the old 25 percent maximum, the new rule sets a ne maximum adjustment of either 5 or 10 percent, depending on the extent by which the taxpayer fails to meet the reserve ratio test. Moreover, adjustments can be imposed by the Internal Revenue Servi only in alternate years. In addition, if at any later time the taxpayer brings his reserve ratio within the transitional limits, will be automatically allowed to return to the useful life he was employing before he was obliged to lengthen it under an adjustment

The New Limitations

In addition to the guideline form and the two new transitiona rules, limitations are set on certain techniques used by some tax-payers in calculating depreciation. These techniques have been fo to be incompatible with the guideline procedure because they exagg ate the benefits of the 1962 revision and they become particularl inappropriate in the transitional period when liberal transitional rules are in force.

depreciation deductions by an objective test. The form contains the same 20 percent margin of tolerance as that already built into the reserve ratio tables, so that even taxpayers who hold their asset as much as 20 percent longer than the period over which costs of the assets are deducted -- usually the guideline life -- will still pass the test.

Each year the taxpayer will have the option of using the guideline form or the reserve ratio tables. Even in cases where neither of these two objective tests is met, a taxpayer may still, as in the past, demonstrate the appropriateness of his depreciatio practices on the basis of all the pertinent facts. The form, however, will allow more taxpayers to justify their depreciation practices simply and objectively without resorting to lengthy examinations by the Internal Revenue Service.

The New Transitional Rules

The 1962 revision provided two special rules for easing the transition from previous depreciation practices. The first allowe taxpayers a three-year moratorium before any test of their deductions would be required. The second allowed a subsequent period during which no test would be required as long as the taxpayer's actual practice continued to move closer to the pattern of deductions he was claiming.

Despite these liberal transition rules, studies show that a number of taxpayers who are trying to conform their practices to the 1962 revision will be unable to meet the reserve ratio test.

Therefore, two additional rules are now being adopted to ease the transition to the guidelines set forth in the 1962 revision. They are a "transitional allowance rule" and a "minimal adjustment rule." The two new rules will be applicable for a period equal to one guideline life -- which will begin, for calendar year taxpayers, in 1965.

The "Transitional Allowance Rule"

The transitional allowance rule, in effect, extends the transitional period beyond three years. It raises the upper limit of the standard reserve ratio -- regardless of whether the

The New Measures

Since the 1962 revision was put into effect, two problems have become apparent. The first is that a number of taxpayers will not have brought their equipment replacement practice into line with their deductions by the end of the three-year transitional period. The second is that certain ways of computing depreciation when combined with the 1962 changes can result in unjustified tax benefits.

The three new liberalizing measures are designed to meet the first problem by easing the difficulties some taxpayers otherwise would encounter under the change-over to the 1962 depreciation rules and guidelines. The limits on the ways in which depreciation deductions can be calculated are designed to meet the second problem by preventing exaggeration of tax benefits.

The three liberalizing measures include a "guideline form" -- which will provide an optional substitute for the reserve ratio tables -- as well as two new transitional rules.

The "Guideline Form"

The guideline form will allow each taxpayer to compute a reserve ratio standard tailored to his individual circumstances.

This is important because the reserve ratio tables are designed to cover the general run of taxpayers. Therefore, taxpayers who replace equipment at irregular intervals often have difficulty in meeting the test because the tables are based on the experience of the average business taxpayer. The reserve ratio tables assume an even rate of growth. For that reason, a taxpayer who purchases a large part of his equipment at one time could fail to meet the standard in the reserve ratio tables because his equipment costs are bunched and his rate of growth is uneven.

Many taxpayers who would otherwise have failed to meet the reserve ratio test will be permitted by the guideline form to meet it -- because it will give them an opportunity to make proper allowance for their particular pattern of equipment acquisition. Thus, all taxpayers will have the opportunity to justify their

for virtually every item of equipment in use. It is usually to the advantage of a taxpayer to take as large depreciation deductions as possible as early as possible after he puts the equipment into use -- thus the 1962 guideline procedure benefitted taxpayers by allowing shorter useful lives.

The "Reserve Ratio Test"

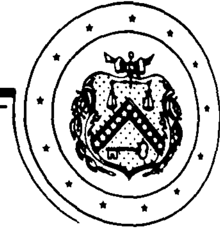
As an objective test of conformity between depreciation deductions and actual equipment replacement practice, the 1962 guideline procedure provided a "reserve ratio test."

A "reserve ratio" is the ratio of the total of depreciation deductions already taken on assets still in use (called the "depreciation reserve") to the original cost of those assets. Thus the more of the cost that the taxpayer has already taken in deductions, the higher his reserve ratio would be. The reserve ratio test requires that the taxpayer's actual reserve ratio be compared to a standard range of reserve ratios appropriate to the useful life and the method the taxpayer is using to calculate his depreciation deductions.

The reserve ratio test is not met if the taxpayer's actual reserve ratio exceeds the upper limit of the range of standard ratios which is shown in the reserve ratio tables published in 1962. Such an excess may indicate that the taxpayer's actual equipment replacement practice does not accord with the useful life under which he has been computing his depreciation deductions. In other words, failure to meet the reserve ratio test may mean that the taxpayer has been recovering the cost of his equipment too quickly -- over a period substantially shorter than its actual useful life to him. Thus, raising the upper limits of the standard range of the reserve ratio helps the taxpayer.

The purpose of the reserve ratio test was to allow taxpayers -- by comparing their actual reserve ratio with an objective standard in the form of prepared tables reflecting reserve ratios appropriate to the useful lives claimed by the taxpayer under the guideline procedure for the equipment involved -- to demonstrate that their choice of the useful lives, and therefore their depreciation deductions, were justified.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 19, 1965

HOLD FOR USE IN A.M. NEWSPAPERS
FRIDAY, FEBRUARY 19, 1965

TREASURY LIBERALIZES DEPRECIATION RULES

The Treasury Department today announced three new measures liberalizing the manner in which income tax deductions for depreciation of plant and equipment can be taken to insure that business will reap the full benefit of the 1962 depreciation reform.

At the same time, the Treasury limited the ways in which such deductions can be calculated.

The combination of the new measures and the new limitations will result in increasing depreciation tax benefits during 1965 by an estimated $600 million to $800 million over what they would have been if the 1962 reform had not been modified.

The 1962 Depreciation Revision

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The taxpayer is allowed, under the tax laws, to recover the cost of equipment by deducting it over the period he will use it -- its "useful life." The 1962 depreciation guideline procedure, among other things, established guides for determining useful lives, by suggesting "guideline lives." These suggested "guideline lives" covered about 75 broad classes of industries and assets, and replaced a long list of thousands of separate suggested lives

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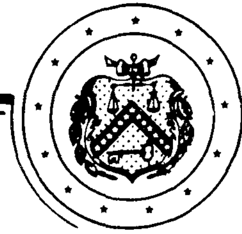
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 19, 1965

)LD FOR USE IN A.M. NEWSPAPERS
{IDAY, FEBRUARY 19, 1965

TREASURY LIBERALIZES DEPRECIATION RULES

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At the same time, the Treasury limited the ways in which such deductions can be calculated.

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for virtually every item of equipment in use. It is usually to the advantage of a taxpayer to take as large depreciation deductions as possible as early as possible after he puts the equipment into use -- thus the 1962 guideline procedure benefitted taxpayers by allowing shorter useful lives.

The "Reserve Ratio Test"

As an objective test of conformity between depreciation deductions and actual equipment replacement practice, the 1962 guideline procedure provided a "reserve ratio test."

A "reserve ratio" is the ratio of the total of depreciation deductions already taken on assets still in use (called the "depreciation reserve") to the original cost of those assets. Thus, the more of the cost that the taxpayer has already taken in deductions, the higher his reserve ratio would be. The reserve ratio test requires that the taxpayer's actual reserve ratio be compared to a standard range of reserve ratios appropriate to the useful life and the method the taxpayer is using to calculate his depreciation deductions.

The reserve ratio test is not met if the taxpayer's actual reserve ratio exceeds the upper limit of the range of standard ratios which is shown in the reserve ratio tables published in 1962. Such an excess may indicate that the taxpayer's actual equipment replacement practice does not accord with the useful life under which he has been computing his depreciation deductions. In other words, failure to meet the reserve ratio test may mean that the taxpayer has been recovering the cost of his equipment too quickly -- over a period substantially shorter than its actual useful life to him. Thus, raising the upper limits of the standard range of the reserve ratio helps the taxpayer.

The purpose of the reserve ratio test was to allow taxpayers -- by comparing their actual reserve ratio with an objective standard in the form of prepared tables reflecting reserve ratios appropriate to the useful lives claimed by the taxpayer under the guideline procedure for the equipment involved -- to demonstrate that their choice of the useful lives, and therefore their depreciation deductions, were justified.

The New Measures

Since the 1962 revision was put into effect, two problems have become apparent. The first is that a number of taxpayers will not have brought their equipment replacement practice into line with their deductions by the end of the three-year transitional period. The second is that certain ways of computing depreciation when combined with the 1962 changes can result in unjustified tax benefits.

The three new liberalizing measures are designed to meet the first problem by easing the difficulties some taxpayers otherwise would encounter under the change-over to the 1962 depreciation rules and guidelines. The limits on the ways in which deprecia- tion deductions can be calculated are designed to meet the second problem by preventing exaggeration of tax benefits.

The three liberalizing measures include a "guideline form" -- which will provide an optional substitute for the reserve ratio tables -- as well as two new transitional rules.

The "Guideline Form"

The guideline form will allow each taxpayer to compute a reserve ratio standard tailored to his individual circumstances.

This is important because the reserve ratio tables are designed to cover the general run of taxpayers. Therefore, taxpayers who replace equipment at irregular intervals often have difficulty in meeting the test because the tables are based on the experience of the average business taxpayer. The reserve ratio tables assume an even rate of growth. For that reason, a taxpayer who purchases a large part of his equipment at one time could fail to meet the standard in the reserve ratio tables because his equipment costs are bunched and his rate of growth is uneven.

Many taxpayers who would otherwise have failed to meet the reserve ratio test will be permitted by the guideline form to meet it -- because it will give them an opportunity to make proper allowance for their particular pattern of equipment acquisition. Thus, all taxpayers will have the opportunity to justify their

depreciation deductions by an objective test. The form contains the same 20 percent margin of tolerance as that already built into the reserve ratio tables, so that even taxpayers who hold their asset as much as 20 percent longer than the period over which costs of the assets are deducted -- usually the guideline life -- will still pass the test.

Each year the taxpayer will have the option of using the guideline form or the reserve ratio tables. Even in cases where neither of these two objective tests is met, a taxpayer may still, as in the past, demonstrate the appropriateness of his depreciation practices on the basis of all the pertinent facts. The form, however, will allow more taxpayers to justify their depreciation practices simply and objectively without resorting to lengthy examinations by the Internal Revenue Service.

The New Transitional Rules

The 1962 revision provided two special rules for easing the transition from previous depreciation practices. The first allowed taxpayers a three-year moratorium before any test of their deductions would be required. The second allowed a subsequent period during which no test would be required as long as the taxpayer's actual practice continued to move closer to the pattern of deductions he was claiming.

Despite these liberal transition rules, studies show that a number of taxpayers who are trying to conform their practices to the 1962 revision will be unable to meet the reserve ratio test.

Therefore, two additional rules are now being adopted to ease the transition to the guidelines set forth in the 1962 revision. They are a "transitional allowance rule" and a "minimal adjustment rule." The two new rules will be applicable for a period equal to one guideline life -- which will begin, for calendar year taxpayers, in 1965.

The "Transitional Allowance Rule"

The transitional allowance rule, in effect, extends the transitional period beyond three years. It raises the upper limit of the standard reserve ratio -- regardless of whether the

standard ratio is determined from the reserve ratio table or from the guideline form. In either case, the upper limit is stated in percentage points. The transitional allowance rule adds a certain number of percentage points to this limit. The additional number of percentage points for 1965 is 15. This number will gradually -- very slowly at first -- be reduced to zero over a period of years equal to a guideline life. (This transitional allowance is measured in percentage points -- not percent. Thus, it will be 15 points regardless of the old upper limit figure to which it is added. It is in percentage points because the reserve ratio itself is expressed in percentage points both in the table and in the form.)

For example, if under the 1962 provisions the taxpayer found he had an upper limit of 60 percent on the reserve ratio test for 1965, he could still meet that test if his actual reserve ratio turned out to be 75 percent or less, because of the additional 15 percentage points added by the transitional allowance rule.

The "Minimal Adjustment Rule"

The second new transitional rule -- the minimal adjustment rule -- is designed to help those taxpayers who cannot meet the reserve ratio test during the transitional period even with the benefit of the transitional allowance rule. This minimal adjustment rule is more liberal than the previous adjustment rule which it replaces. The old rule allowed the Internal Revenue Service to increase the life used by the taxpayer by as much as 25 percent if the taxpayer could not meet the reserve ratio test or otherwise justify the guideline life he is using to calculate deductions. (Increasing the life automatically reduces the depreciation deduction the taxpayer can claim in any single year because it spreads the total amount deductible over the longer period.)

Instead of the old 25 percent maximum, the new rule sets a new maximum adjustment of either 5 or 10 percent, depending on the extent by which the taxpayer fails to meet the reserve ratio test. Moreover, adjustments can be imposed by the Internal Revenue Service only in alternate years. In addition, if at any later time the taxpayer brings his reserve ratio within the transitional limits, he will be automatically allowed to return to the useful life he was employing before he was obliged to lengthen it under an adjustment.

The New Limitations

In addition to the guideline form and the two new transitional rules, limitations are set on certain techniques used by some taxpayers in calculating depreciation. These techniques have been found to be incompatible with the guideline procedure because they exaggerate the benefits of the 1962 revision and they become particularly inappropriate in the transitional period when liberal transitional rules are in force.

In order to prevent use of such techniques with the guideline procedure taxpayers will not be allowed to use the guideline procedure (beginning in general with the fourth taxable year to which the guideline procedure is applicable, which would be 1965 for calendar year taxpayers) if they use the straight-line method or the sum of the years-digits method -- unless the cost of current acquisitions is recorded in year's acquisition accounts or in item accounts. Accounts depreciated under the declining balance method will not be affected.

The Effect of the New Measures

Without the new liberalization, an estimated 60 percent of larger firms using the guidelines would have failed the reserve ratio test in 1965. Failures under the test would have reduced the total tax benefits in 1965 resulting from the 1962 revision -- estimated at $1.8 billion -- by some $700 million to $900 million.

The three liberalizing measures will allow the great bulk of the firms which would have failed the test in 1965 to meet it. These measures, even taking account of the limitations, will allow such firms some $600 million to $800 million of the benefits which otherwise they would not have been eligible to receive.

At the request of the Treasury, the National Industrial Conference Board last September made a survey of the depreciation practices of several hundred large firms -- chiefly those with assets of $10 million or more. Of the firms surveyed, about 60 percent were found to be using the guideline procedure established in 1962. Since the survey, a number of taxpayers have elected to switch to the guideline procedure, and more are expected to do so. Of these guideline users, about 15 percent would have met the reserve ratio test automatically. About 25 percent more of these guideline users would have been enabled to meet the test with the help of the transitional rule provided in the 1962 revision. Thus some 60 percent of guideline users in the survey would have found themselves unable to meet the test in 1965. Based on NICB data for larger firms, with the application of the new liberalizing changes, some 95 percent of all adopters will be able to meet it with the help of the new guideline form or transitional allowance rule or both. That will leave only about 5 percent of all guideline users unable to meet the liberalized test in 1965.

The Treasury did not rely solely on the NICB Survey in making its decision. Detailed information on guideline adoption was obtained by analyzing studies by the Internal Revenue Service and by the Commerce Department. In addition, information on the number of firms which would have failed the reserve ratio test in 1965 under the 1962 procedure was drawn from a broad range of larger companies, as well as industry groups. The information obtained covered electric and gas utilities, railroads, and other industries. The information obtained from these varied sources confirmed the high percentage of firms using the 1962 guidelines which would fail to meet the reserve ratio test in 1965 unless action was taken to liberalize the guideline procedure.

Separate values for each of the three liberalizing measures cannot be estimated accurately because the measures will be used in combination. However, if the transitional allowance rule were adopted by itself, it probably would allow taxpayers about three-fourths of the $700 million to $900 million in benefits which they would otherwise lose in 1965 through failure to meet the reserve ratio test. Of the remaining benefit to taxpayers by adding the guideline form and the minimal adjustment rule, probably the bulk of the additional benefit is provided by the new guideline form.

The technical details of the three liberalizing procedures and the new limitation will be published soon by the Internal Revenue Service and will be effective for most taxpayers for the taxable year 1965. These changes are in accordance with the Treasury policy, announced in 1962, of keeping its tax treatment of depreciation as up-to-date as possible.

That policy was stated in the 1962 revision as follows:

> "The experience under the new guideline lives, industry and asset classifications and administrative procedures will be watched carefully with a view to possible corrections and improvements. Periodic reexamination and revision will be essential to maintain tax depreciation treatment which is in keeping with modern industrial practices."

Depreciation Policy

Proper depreciation policy requires that equipment replacement practice be consistent with depreciation deductions, so that deductions for business expenditures reasonably reflect actual costs.

The reserve ratio test provides an objective test of the reasonableness of taxpayer depreciation deductions. The new measures make the reserve ratio test useful to almost all present and future users of the 1962 guideline procedures. Moreover, they give taxpayers substantially more time to adjust their actual depreciation practices by making the reserve ratio test easier to meet during the transitional period.

Thus, all but a few guideline users will be able to take full advantage of the 1962 depreciation liberalizations and to validate their deductions without being obliged to undergo lengthy and detailed examination of their entire depreciation practice by the Internal Revenue Service.

(NOTE: In addition to this release, a supplementary release containing a more detailed description of the proposals and their effects, with examples, is available on request from the Office of Information of the Treasury Department)

Errata Sheet

Part 1 -- Guideline Form

Page 9, Line 3: substitute "(Column B)" for "(Column C)".

Page 12, Line 8: substitute "(Column B)" for "(Column C)".

Part 2 -- Transitional Rules

Page 9, next to the last line: substitute "C" for "D".

SUPPLEMENTARY RELEASE

This supplements the Treasury Department Press Release relating to the changes in the 1962 depreciation reform. It is divided into four parts:

1. The Guideline Form
2. Transitional Rules
3. Limitations on Some Depreciation Calculation Techniques
4. Sources of Information on Operation of Guideline Procedure

THE GUIDELINE FORM

The reserve ratio test objectively measures the relationship between the useful lives claimed by a taxpayer for tax depreciation purposes and the taxpayer's actual pattern of replacing his depreciable assets.

A "reserve ratio" is the ratio of the total of depreciation deductions already taken on assets still in use (the "depreciation reserve") to the original cost of those assets. Under the reserve ratio test the taxpayer's actual reserve ratio is compared to a standard range of reserve ratios (Reserve Ratio Table) appropriate to the useful lives and the depreciation method used by the taxpayer to calculate his depreciation deductions and to the taxpayer's rate of growth. The reserve ratio test is met if the taxpayer's actual reserve ratio is not higher than the upper limit of the appropriate range.

A taxpayer's rate of growth is determined from a published growth table based on a simple comparison of assets in use at the close

of the current taxable year with assets in use at the close of an earlier taxable year ("base year").

Under the growth table taxpayers may find that they have the same growth rate although their patterns of acquiring assets are quite different. For example, assume that Taxpayer A had depreciable assets in a certain guideline class of $1,000 at the close of 1956 (the base year) and had a net addition of $50 of assets a year for each of the next 10 years so that at the end of 1965 he would have total assets of $1,500. Assume that Taxpayer B also had $1,000 of assets in 1956 and had net additions of $250 in 1956 and $250 in 1957 and had no net additions thereafter. At the end of 1965, Taxpayers A and B would both have the same growth rates under the growth table ($1,500 of assets on hand in 1965 compared to $1,000 in 1956). If they used the same depreciation methods and test life, they would both have the same reserve ratio range and upper limit against which to test their actual reserve ratios.

The Treasury studies have shown that the Reserve Ratio Table does not accommodate readily to the situation of taxpayers who have certain types of irregular growth patterns (those whose acquisitions are bunched as in the case of Taxpayer B). The average age of B's equipment is greater than the average age of A's equipment; therefore, B has properly taken more depreciation deductions and his actual reserve ratio is properly higher than A's. The Reserve Ratio Table, however, does not distinguish between A and B because of the uniform growth rate assumption used in the Table. Thus the reserve ratio range indicatedin the Table is the same for A and B, and thus is too low for B. As a consequence, B might not meet the test.

Moreover, as stated in the 1962 Revenue Procedure, the reserve ratio test based on use of the Reserve Ratio Table is not appropriate

either for a new taxpayer or for an existing taxpayer who starts a new guideline class. Nor is it appropriate for any taxpayer who has a guideline class that contains relatively few assets, most of which are retired at or about the same time.

The guideline form provides an appropriate objective test in all of these cases. The guideline form is designed to provide each taxpayer with an individually tailored upper limit against which he can measure his actual reserve ratio to determine whether his replacement practices are consistent with the useful lives he is using for tax depreciation purposes. The guideline form may be used as a substitute for the Reserve Ratio Table, at the annual election of the taxpayer. Thus, he may use the form in one year and the tables in other years. Moreover, a taxpayer may use the form for one guideline class and use the tables for other classes.

To use the guideline form the taxpayer need only know the gross amount of equipment in the guideline class that was acquired in the

current year and in each preceding year for a period of one test life (usually the guideline life) plus 20 percent of a test life. (This 20 percent addition furnishes the same tolerance as that built into the Reserve Ratio Tables, so that a taxpayer may hold assets as much as 20 percent longer than the useful life claimed for tax depreciation and still meet the reserve ratio test.) For example, to use the guideline form in 1965 for a guideline class with a 10-year life, a taxpayer should ascertain the cost of acquisitions back through 1954 (10 years plus 2 years).

If the taxpayer elects to use the guideline form for purposes of the reserve ratio test for any guideline class, he should follow the procedure outlined in the examples below. The taxpayer's actual reserve ratio is compared with the reserve ratio limit determined by dividing the total "cost of assets" acquired during the "extended life" for the guideline class into the total "computed reserve" for the same period.

COST OF ASSETS.--The cost of assets for any year is the annual investment in assets (without reduction for retirements or depreciation) in the guideline class. The annual investment includes the cost of all assets acquired during the year regardless of present status; *i.e.*, it includes assets even if they have been discarded or depreciated in part or in full. For example, if $30,000 of assets were acquired in 1959 and by 1965 $5,000 of those assets have been sold or retired, $30,000 is nevertheless to be entered.

EXTENDED LIFE.--The extended life, for any guideline class, is the test life for that class, usually guideline life, plus 20% of such test life.

If the "extended life" includes a fractional part of a year, the fractional part applies to the year preceding the oldest full year of the extended life and only the proportional part of the cost of assets for such year is to be used. For example, in the case of a 14.4 year extended life, the fraction (40%) would apply to the 15th preceding

year. For such 15th year, only 40 percent of the cost of assets is to be entered.

COMPUTED RESERVE.--To obtain the computed reserve, the cost of assets for each year is multiplied by the appropriate annual factor from the Table of Annual Factors. That Table will provide annual factors appropriate for each test life and depreciation method (e.g., straight-line, double declining balance) used for a guideline class. Table A, which is attached, shows appropriate annual factors for commonly used test lives.

Different Depreciation Methods Applied to a Guideline Class Account

If the taxpayer uses more than one depreciation method with respect to different assets in the same guideline class, he must record the cost of assets depreciated under each method on a separate form (as illustrated in Example 2 below). However, in computing the reserve ratio limit, the total cost of assets on each such form should be added and the grand total divided by the grand total of the total computed reserve for each such computation.

Example 1.--Taxpayer C

Taxable year: 1965

Test life: 10 years

Extended life (test life plus 20% of test life): 12 years.

Depreciation Method: Straight line

A Taxable year	B Cost of Assets	C Annual Factors (from Table A) 1/	D Computed Reserve (Column B x Column C
1953			
1954	$15,000	1.000	$15,000
1955	10,000	1.000	10,000
1956	30,000	.950	28,500
1957	20,000	.850	17,000
1958	25,000	.750	18,750
1959	30,000	.650	19,500
1960	25,000	.550	13,750
1961	30,000	.450	13,500
1962	15,000	.350	5,250
1963	25,000	.250	6,250
1964	15,000	.150	2,250
1965	15,000	.050	750
Total	$255,000		$150,500

1/ Note that Table A assumes the use of the half year convention. The annual factors should be adjusted by the taxpayer if the half year convention is not used.

Reserve ratio limit:

$$\frac{\text{(Total computed reserve (Column D))}}{\text{(Total cost of assets (Column C))}} = \frac{150,500}{255,000} = 59.02$$

If Taxpayer C's actual reserve ratio (the ratio of the total depreciation deductions already taken on assets still in use to the original cost of those assets) is not greater than 59.02, he meets the reserve ratio test. If C's actual reserve ratio is not greater than 74.02, he meets the reserve ratio test with the assistance of the 15 point transitional allowance.

Example 2.--Taxpayer D

Taxable year: 1965

Test life: 6 years

Extended life (test life plus 20% of test life): 7.2 years.

Depreciation methods:

(1) Double declining balance-- with a later switch to straight line: on assets acquired new in 1958 through 1961.

(2) Double declining balance: on assets acquired new in 1962 through 1965.

(3) Straight line: on assets acquired used in 1963.

Double Declining Balance--Straight Line 1/

A Taxable year	B Cost of Assets	C Annual Factors (from Table A)	D Computed Reserve (Column B x Column C)
1958	$ 2,000 2/	1.000	$ 2,000
1959	6,000	1.000	6,000
1960	4,000	.951	3,804
1961	8,000	.852	6,816
1962			
1963			
1964			
1965			
Total	$20,000		$18,620

1/ Note that if any particular asset is depreciated under more than one method (e.g., at first double declining balance and later switched to straight line) this combination is treated as a separate method of depreciation for purposes of the guideline form method.

2/ Includes only 20 percent of cost of assets acquired in 1958 to reflect fractional year of extended life. It is assumed that $10,000 of property was acquired in 1958. Therefore, $2,000 is entered in Column B (20% x $10,000).

Double Declining Balance

A Taxable year	B Cost of Assets	C Annual Factors (from Table A)	D Computed Reserve (Column B x Column C)
1958			
1959			
1960			
1961			
1962	$2,000	.753	$1,506
1963	3,000	.630	1,890
1964	3,000	.444	1,332
1965	6,000	.167	1,002
Total	$14,000		$5,730

Straight Line

A Taxable year	B Cost of Assets	C Annual Factors (from Table A)	C Computed Reserve (Column B x Column C)
1958			
1959			
1960			
1961			
1962			
1963	$2,000	.417	$834
1964			
1965			
Total	$2,000		$834

DDB - SL total computed reserve	$18,620
DDB total computed reserve	5,730
SL total computed reserve	834
Grand total computed reserve (Column D)	$25,184
DDB - SL total cost of assets	$20,000
DDB total cost of assets	14,000
SL total cost of assets	2,000
Grand total cost of assets (Column C)	$36,000

Reserve Ratio Limit:

$$\frac{\text{Grand total computed reserve}}{\text{Grand total cost of assets}} = \frac{\$25,184}{\$36,000} = 69.96\%$$

If Taxpayer D's actual reserve ratio (the ratio of the total depreciation deductions already taken on assets still in use to the original cost of those assets) is not greater than 69.96% he meets the reserve ratio test. If D's actual reserve ratio is not greater than 84.96%, he meets the reserve ratio test with the assistance of the 15 point transitional allowance.

Table A

Annual Factors

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 3 Years		
4	1.000	.975	.907	1.000	1.000
3	.833	.926	.813	.926	.917
2	.500	.778	.625	.778	.667
1	.167	.333	.250	.333	.250
			Test Life - 4 Years		
5	1.000	.954	.876	1.000	1.000
4	.875	.906	.802	.938	.950
3	.625	.813	.683	.813	.800
2	.375	.625	.492	.625	.550
1	.125	.250	.188	.250	.200
			Test Life - 5 Years		
6	1.000	.938	.857	1.000	1.000
5	.900	.896	.796	.942	.967
4	.700	.827	.708	.827	.867
3	.500	.712	.584	.712	.700
2	.300	.520	.405	.520	.467
1	.100	.200	.150	.200	.167
			Test Life - 6 Years		
8	1.000	.950	.885	1.000	1.000
7	1.000	.927	.844	1.000	1.000
6	.917	.890	.792	.951	.976
5	.750	.835	.723	.852	.905
4	.583	.753	.631	.753	.786
3	.417	.630	.508	.630	.619
2	.250	.444	.344	.444	.405
1	.083	.167	.125	.167	.143

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 7 Years		
9	1.000	.942	.870	1.000	1.000
8	1.000	.919	.835	1.000	1.000
7	.929	.886	.790	.955	.982
6	.786	.841	.733	.866	.929
5	.643	.777	.660	.777	.839
4	.500	.688	.567	.688	.714
3	.357	.563	.449	.563	.554
2	.214	.388	.298	.388	.357
1	.071	.143	.107	.143	.125
			Test Life - 8 Years		
10	1.000	.935	.860	1.000	1.000
9	1.000	.912	.828	1.000	1.000
8	.938	.883	.788	.960	.986
7	.813	.844	.739	.881	.944
6	.688	.792	.679	.802	.875
5	.563	.723	.605	.723	.778
4	.438	.631	.514	.631	.653
3	.313	.508	.402	.508	.500
2	.188	.344	.264	.344	.319
1	.063	.125	.094	.125	.111
			Test Life - 9 Years		
11	1.000	.927	.852	1.000	1.000
10	1.000	.907	.822	1.000	1.000
9	.944	.881	.787	.964	.989
8	.833	.847	.744	.892	.956
7	.722	.803	.693	.819	.900
6	.611	.747	.632	.747	.822
5	.500	.675	.558	.675	.722
4	.389	.582	.470	.582	.600
3	.278	.462	.363	.462	.456
2	.167	.309	.236	.309	.289
1	.056	.111	.083	.111	.100

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 10 Years		
12	1.000	.923	.845	1.000	1.000
11	1.000	.903	.818	1.000	1.000
10	.950	.879	.786	.967	.991
9	.850	.849	.748	.902	.964
8	.750	.811	.703	.836	.918
7	.650	.764	.651	.771	.855
6	.550	.705	.590	.705	.773
5	.450	.631	.517	.631	.673
4	.350	.539	.432	.539	.555
3	.250	.424	.332	.424	.418
2	.150	.280	.214	.280	.264
1	.050	.100	.075	.100	.091
			Test Life - 11 Years		
14	1.000	.935	.860	1.000	1.000
13	1.000	.918	.840	1.000	1.000
12	1.000	.900	.814	1.000	1.000
11	.955	.878	.785	.970	.992
10	.864	.851	.751	.909	.970
9	.773	.817	.712	.848	.932
8	.682	.777	.666	.788	.879
7	.591	.727	.613	.727	.811
6	.500	.667	.552	.667	.727
5	.409	.593	.482	.593	.629
4	.318	.502	.400	.502	.515
3	.227	.391	.305	.391	.386
2	.136	.256	.195	.256	.242
1	.045	.091	.068	.091	.083

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 12 Years		
15	1.000	.929	.855	1.000	1.000
14	1.000	.914	.835	1.000	1.000
13	1.000	.897	.811	1.000	1.000
12	.958	.877	.784	.972	.994
11	.875	.852	.753	.916	.974
10	.792	.822	.718	.860	.942
9	.708	.787	.678	.805	.897
8	.625	.744	.632	.749	.840
7	.542	.693	.579	.693	.769
6	.458	.632	.519	.632	.686
5	.375	.558	.450	.558	.590
4	.292	.470	.372	.470	.481
3	.208	.363	.282	.363	.359
2	.125	.236	.180	.236	.224
1	.042	.083	.063	.083	.077
			Test Life - 13 Years		
16	1.000	.925	.850	1.000	1.000
15	1.000	.911	.831	1.000	1.000
14	1.000	.895	.809	1.000	1.000
13	.962	.876	.784	.974	.995
12	.885	.853	.755	.922	.978
11	.808	.826	.723	.870	.951
10	.731	.795	.687	.818	.912
9	.654	.757	.647	.765	.863
8	.577	.713	.601	.713	.802
7	.500	.661	.548	.661	.731
6	.423	.600	.490	.600	.648
5	.346	.527	.423	.527	.555
4	.269	.441	.348	.441	.451
3	.192	.339	.263	.339	.335
2	.115	.219	.166	.219	.209
1	.038	.077	.058	.077	.071

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 14 Years		
17	1.000	.921	.845	1.000	1.000
16	1.000	.908	.827	1.000	1.000
15	1.000	.893	.806	1.000	1.000
14	.964	.875	.783	.976	.995
13	.893	.854	.757	.927	.981
12	.821	.830	.728	.879	.957
11	.750	.801	.695	.830	.924
10	.679	.768	.659	.781	.881
9	.607	.729	.618	.733	.829
8	.536	.684	.572	.684	.767
7	.464	.632	.521	.632	.695
6	.393	.570	.463	.570	.614
5	.321	.499	.399	.499	.524
4	.250	.415	.326	.415	.424
3	.179	.318	.246	.318	.314
2	.107	.204	.155	.204	.195
1	.036	.071	.054	.071	.067
			Test Life - 15 Years		
18	1.000	.918	.842	1.000	1.000
17	1.000	.905	.824	1.000	1.000
16	1.000	.891	.804	1.000	1.000
15	.967	.874	.783	.977	.996
14	.900	.855	.759	.931	.983
13	.833	.832	.732	.886	.963
12	.767	.807	.702	.840	.933
11	.700	.777	.669	.794	.896
10	.633	.743	.632	.749	.850
9	.567	.703	.591	.703	.796
8	.500	.657	.546	.657	.733
7	.433	.604	.495	.604	.663
6	.367	.544	.439	.544	.583
5	.300	.473	.377	.473	.496
4	.233	.392	.307	.392	.400
3	.167	.299	.231	.299	.296
2	.100	.191	.145	.191	.183
1	.033	.067	.050	.067	.063

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 16 Years		
20	1.000	.925	.855	1.000	1.000
19	1.000	.915	.838	1.000	1.000
18	1.000	.903	.821	1.000	1.000
17	1.000	.889	.803	1.000	1.000
16	.969	.873	.782	.979	.996
15	.906	.855	.760	.936	.985
14	.844	.835	.735	.893	.967
13	.781	.811	.707	.850	.941
12	.719	.784	.677	.807	.908
11	.656	.753	.644	.764	.868
10	.594	.718	.607	.721	.820
9	.531	.678	.566	.678	.765
8	.469	.632	.521	.632	.702
7	.406	.579	.472	.579	.632
6	.344	.519	.417	.519	.555
5	.281	.450	.357	.450	.471
4	.219	.372	.291	.372	.379
3	.156	.282	.217	.282	.279
2	.094	.180	.136	.180	.173
1	.031	.063	.047	.063	.059

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 17 Years		
21	1.000	.923	.850	1.000	1.000
20	1.000	.913	.835	1.000	1.000
19	1.000	.901	.819	1.000	1.000
18	1.000	.888	.801	1.000	1.000
17	.971	.873	.782	.980	.997
16	.912	.856	.761	.939	.987
15	.853	.837	.738	.898	.971
14	.794	.815	.712	.858	.948
13	.735	.790	.685	.817	.918
12	.676	.762	.654	.776	.882
11	.618	.731	.620	.736	.840
10	.559	.695	.584	.695	.791
9	.500	.654	.543	.654	.735
8	.441	.608	.499	.608	.673
7	.382	.556	.451	.556	.605
6	.324	.497	.398	.497	.529
5	.265	.430	.339	.430	.448
4	.206	.353	.275	.353	.359
3	.147	.267	.205	.267	.265
2	.088	.170	.128	.170	.163
1	.029	.059	.044	.059	.056

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 18 Years		
22	1.000	.920	.847	1.000	1.000
21	1.000	.910	.832	1.000	1.000
20	1.000	.899	.817	1.000	1.000
19	1.000	.887	.800	1.000	1.000
18	.972	.872	.782	.981	.997
17	.917	.857	.762	.942	.988
16	.861	.839	.740	.904	.974
15	.806	.818	.717	.865	.953
14	.750	.796	.691	.827	.927
13	.694	.770	.663	.788	.895
12	.639	.741	.632	.750	.857
11	.583	.709	.599	.711	.813
10	.528	.673	.562	.673	.763
9	.472	.632	.522	.632	.708
8	.417	.586	.479	.586	.646
7	.361	.534	.431	.534	.579
6	.306	.476	.380	.476	.506
5	.250	.410	.323	.410	.427
4	.194	.337	.262	.337	.342
3	.139	.254	.195	.254	.251
2	.083	.160	.122	.160	.155
1	.028	.056	.042	.056	.053

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 19 Years		
23	1.000	.918	.843	1.000	1.000
22	1.000	.908	.829	1.000	1.000
21	1.000	.898	.815	1.000	1.000
20	1.000	.886	.799	1.000	1.000
19	.974	.872	.781	.982	.997
18	.921	.857	.763	.945	.989
17	.868	.840	.742	.908	.976
16	.816	.821	.720	.872	.958
15	.763	.800	.696	.835	.934
14	.711	.777	.670	.798	.905
13	.658	.751	.642	.762	.871
12	.605	.721	.611	.725	.832
11	.553	.688	.578	.688	.787
10	.500	.652	.542	.652	.737
9	.447	.611	.503	.611	.682
8	.395	.565	.460	.565	.621
7	.342	.514	.414	.514	.555
6	.289	.457	.363	.457	.484
5	.237	.393	.309	.393	.408
4	.184	.321	.249	.321	.326
3	.132	.242	.185	.242	.239
2	.079	.152	.115	.152	.147
1	.026	.053	.039	.053	.050

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 20 Years		
24	1.000	.916	.840	1.000	1.000
23	1.000	.906	.827	1.000	1.000
22	1.000	.896	.813	1.000	1.000
21	1.000	.885	.798	1.000	1.000
20	.975	.872	.781	.983	.998
19	.925	.857	.763	.948	.990
18	.875	.842	.744	.913	.979
17	.825	.824	.724	.878	.962
16	.775	.804	.701	.843	.940
15	.725	.783	.677	.808	.914
14	.675	.759	.651	.773	.883
13	.625	.732	.622	.738	.848
12	.575	.702	.592	.704	.807
11	.525	.669	.559	.669	.762
10	.475	.632	.523	.632	.712
9	.425	.591	.484	.591	.657
8	.375	.546	.442	.546	.598
7	.325	.495	.397	.495	.533
6	.275	.439	.348	.439	.464
5	.225	.377	.295	.377	.390
4	.175	.307	.238	.307	.312
3	.125	.231	.176	.231	.229
2	.075	.145	.110	.145	.140
1	.025	.050	.038	.050	.048

Year	Straight line	Double declining balance	150% declining balance	Double declining balance with shift to straight line	Sum-of-the-years-digits
			Test Life - 22 Years		
27	1.000	.920	.845	1.000	1.000
26	1.000	.912	.835	1.000	1.000
25	1.000	.903	.823	1.000	1.000
24	1.000	.893	.810	1.000	1.000
23	1.000	.883	.796	1.000	1.000
22	.977	.871	.781	.984	.998
21	.932	.858	.765	.952	.992
20	.886	.844	.748	.920	.982
19	.841	.828	.729	.888	.968
18	.795	.811	.709	.857	.951
17	.750	.792	.688	.825	.929
16	.705	.771	.665	.793	.903
15	.659	.749	.641	.761	.874
14	.614	.724	.614	.729	.840
13	.568	.696	.586	.697	.802
12	.523	.665	.556	.665	.761
11	.477	.632	.523	.632	.715
10	.432	.595	.488	.595	.666
9	.386	.555	.451	.555	.613
8	.341	.510	.411	.510	.555
7	.295	.461	.368	.461	.494
6	.250	.407	.321	.407	.429
5	.205	.348	.272	.348	.360
4	.159	.283	.218	.283	.287
3	.114	.211	.161	.211	.209
2	.068	.132	.100	.132	.128
1	.023	.045	.034	.045	.043

TRANSITIONAL RULES

Introduction

Under the 1962 Guideline Procedure, taxpayers using lives permitted by the procedure to calculate depreciation deductions were not required to meet the reserve ratio test for the first three taxable years to which the guideline procedure applied. However, the right to use the guideline lives may be questioned by the Internal Revenue Service, beginning in the fourth year (1965 for calendar year taxpayers), if the reserve ratio test is failed and if the taxpayer is not demonstrating a trend toward a replacement practice consistent with the lives used to calculate depreciation deductions. Under the 1962 procedure, a trend toward a consistent retirement and replacement pattern is demonstrated if, in the current year, the amount by which the taxpayer's actual reserve ratio exceeds the upper limit of the standard reserve ratio range is lower than the excess in any one of the three preceding years.

In order to facilitate the transition to the guideline procedure, two additional transitional rules will be authorized -- the transitional allowance rule and the minimal adjustment rule. The use of the new transitional rules will begin with the fourth taxable year (1965 for calendar year taxpayers) to which the guideline procedure applies.

Transitional Allowance Rule

As the first of the two new rules, the reserve ratio test will be considered to be met, for the fourth taxable year to which the guideline procedure applies, if the taxpayer's reserve ratio does not exceed the upper limit of the standard reserve ratio range by more than 15 percentage points.

> Example: Taxpayer A files his returns for the calendar year. For 1965, the upper limit of the appropriate reserve ratio range for one of his guideline classes is 60 percent. The actual reserve ratio is 75 percent. For 1965, the reserve ratio test is considered to be met for this particular guideline class since the margin of failure is not in excess of 15 percentage points.

The transitional allowance, initially established at 15 percentage points will decline over a period of years equal to the guideline life. One-third of the allowance (5 points) will taper off ratably over the first one-half of the transitional period. The remaining two-thirds

As provided in the 1962 Guideline Procedure, once the trending rule is failed, it cannot be relied on in later years; however, the transitional allowance rule is available for the entire transitional period.

Minimal Adjustment Rule

As the second of the two new transitional rules, the permissible lengthening adjustments have been reduced substantially. Under the 1962 guideline procedure, if the reserve ratio test is not met, no adjustment to useful lives is to be made by the Internal Revenue Service if the taxpayer is able to demonstrate, under all the facts and circumstances, that none is warranted. If an adjustment is permitted, useful lives may be lengthened by not more than 25 percent. Under the new minimal adjustment rule useful lives will not be lengthened by more than 5 or 10 percent.

If the trending rule is not met and the "transition limit" (the sum of the upper limit of the standard reserve ratio range plus the transitional allowance) is exceeded (and if the taxpayer is unable to

upper limit of the standard reserve ratio range for that year and for the three preceding years must all be calculated consistently, either from the reserve ratio table or from the guideline form. (The transitional allowance is, of course, not used for the purpose of applying the trending rule.

Example: For purposes of applying the trending rule, Taxpayer A, who reports on a calendar year, should make the following calculations:

Margin by which the upper limit of the standard reserve ratio range is exceeded

Year	Guideline Form	Table
1962	7	9
1963	6	7
1964	5	6
1965	6	10
1966	7	9
1967	8	10

For 1965, the trending rule is met since the taxpayer may look to the results under the guideline form for 1962, 1963, 1964, and 1965. Using the form, the margin of failure in 1965 (6 percentage points) is lower than it was in one of the three preceding years (1962 -- 7 percentage points).

For 1966, the trending rule would be failed if the taxpayer looked to the guideline form, but is met since he may look to the tables. Using the table, the margin of failure in 1966 (9 percentage points) is lower than it was in one of the three preceding years (1965 -- 10 percentage points).

For 1967, the trending rule is not met if the guideline form is used for that year and the three preceding years; nor is it met if the table is used. Accordingly, the trending rule is not met for 1967, notwithstanding that the margin of failure in 1967 using the guideline form is lower than the margin of failure for 1966 using the table.

As provided in the 1962 Guideline Procedure, once the trending rule is failed, it cannot be relied on in later years; however, the transitional allowance rule is available for the entire transitional period.

Minimal Adjustment Rule

As the second of the two new transitional rules, the permissible lengthening adjustments have been reduced substantially. Under the 1962 guideline procedure, if the reserve ratio test is not met, no adjustment to useful lives is to be made by the Internal Revenue Service if the taxpayer is able to demonstrate, under all the facts and circumstances, that none is warranted. If an adjustment is permitted, useful lives may be lengthened by not more than 25 percent. Under the new minimal adjustment rule useful lives will not be lengthened by more than 5 or 10 percent.

If the trending rule is not met and the "transition limit" (the sum of the upper limit of the standard reserve ratio range plus the transitional allowance) is exceeded (and if the taxpayer is unable to

demonstrate, under the facts and circumstances, that a lengthening adjustment is not warranted), useful lives will be lengthened under a sliding scale. If the actual reserve ratio exceeds the transition limit by less than 10 points, the useful life may not be lengthened by more than 5 percent. If the transition limit is exceeded by 10 or more points, the useful life may not be lengthened by more than 10 percent.

Under the minimal adjustment rule, the useful lives will be lengthened for the year of failure (that is, if the transition limit is exceeded, the trending rule is not met, and adjustment is not precluded because of facts and circumstances). However, no adjustment will be made for the year immediately subsequent to a year for which a lengthening adjustment has been made.

Example: Taxpayer A, who reports on the calendar year and uses a 10-year guideline life, makes the following calculations:

Year	Upper limit of the standard reserve ratio range	Transitional Allowance	Transition limit	Actual Reserve Ratio	Margin of Failure
1962	50			53	
1963	51			55	
1964	51			55	
1965	50	15	65	55	

For 1965, the trending rule is not met since the margin of failure in 1965 is not lower than it was in any one of the three preceding years. (Thus, A may not rely on the trending rule for any future year.) However, no lengthening adjustment will be made since the actual reserve ratio (55 percent) does not exceed the transition limit (65 percent).

1966	49	14	63	72	9
1967	51	13	64	68	4

For 1966, since the actual reserve ratio exceeds the transition limit by less than 10 points, the useful life for 1966 may be lengthened by 5 percent to 10.5 years. Since an adjustment was made for 1966, no adjustment may be made for 1967.

1968	51	12	63	73	10
1969	50	11	61	68	7
1970	51	10	61	70	9
1971	49	8	57	69	12

For 1968, since the transition limit is exceeded by 10 points and since no adjustment was made for 1967, the useful life for 1968 may be lengthened by 10 percent to 11.5 years (10.5 years plus 10% x 10 = 11.5). Since an adjustment was made for 1968, none may be made for 1969.

For 1970, since the margin of failure is less than 10 points the useful life for 1970 may be lengthened by 5 percent to 12 years (11.5 plus 5% x 10 = 12).

No adjustment may be made for 1971 since one was made for 1970.

Taxpayers will be permitted to return to the original useful lives

If, in any year subsequent to a lengthening adjustment, the actual reserve ratio equals or is below the transition limit, the taxpayer will be permitted to use, for that year, the useful life used at the beginning of the transitional period.

Example: If under the facts presented in the preceding example, the actual reserve ratio for 1971 were 57 or less, the useful life for 1971 would be decreased to 10 years.

Termination of transitional period

The transitional period will terminate at the end of the taxable year in which the transitional allowance expires.

Example: If the guideline life is 10 years, the transitional allowance for 1974 is two points, and there is no allowance for 1975. 1974 is the last year of the transitional period.

If the transitional period has expired, no further lengthening adjustment may be made until the fourth taxable year after the last adjustment.

Example: Taxpayer B's useful life was lengthened for 1971 and the transitional allowance expired in 1972. No additional adjustment may be made to B's useful life for 1973, or 1974. For 1975 an adjustment may be made in accordance with the 1962 Guideline Procedure.

A special rule will be available to those taxpayers for whom the cumulative lengthening adjustments equal or exceed 25 percent prior to the expiration of the transitional period. Such a taxpayer may elect to terminate the applicability of the minimal adjustment rule. If he

so elects, he will not be subject to any further lengthening adjustment until the fourth taxable year after the year for which his cumulative lengthening adjustment first reached 25 percent, and any subsequent lengthening adjustment would be based on all the facts and circumstances. Of course, if, during the balance of the transitional period, his actual reserve ratio equals or is less than the transition limit, he may return to the class life used at the beginning of the transitional period.

Example: Taxpayer C, who reports on a calendar year, has an 18-year guideline life. His useful life was lengthened by 10 percent for 1975 and this brought his cumulative lengthening adjustment to 30 percent. C's actual reserve ratio exceeds the transition limit for 1976, 1977, 1978 and 1979. For 1977 and subsequent years, C chooses to terminate the applicability of the minimal adjustment rule so no lengthening adjustment may be made for 1976, 1977 or 1978. A lengthening adjustment under all the facts and circumstances may be made for 1979.

In 1980, C's actual reserve ratio equaled or was less than the transition limit. D may again use an 18-year useful life to calculate depreciation for 1980.

LIMITATIONS ON SOME DEPRECIATION CALCULATION TECHNIQUES

Treasury studies indicate that certain depreciation calculation techniques, used in conjunction with the transitional rules contained in the 1962 Guideline Procedure, have resulted in exaggerated depreciation deductions.

Frequently, the cost of numerous items of equipment is recorded in one account called a "multiple asset account." An "open-end" multiple asset account is one which contains the cost of equipment acquired in the current year and in prior years. The use of open-end multiple asset accounts has been regarded as an acceptable accounting technique. At the same time it has been recognized that this practice does involve difficult problems. Depreciation rates (which are based on the useful life and method used by a taxpayer) applied to open-end multiple asset accounts must be kept under constant surveillance in order to prevent the depreciation reserves from becoming too large relative to the cost of equipment. The useful life of new additions to the accounts and timing of retirements must be studied

continuously in order to keep annual depreciation deductions consistent with actual practice.

The reserve ratio test is designed to perform this function objectively. However, during the transitional period, the reserve ratio test is not applied in full. As a result, if certain depreciation methods are used in combination with open-end multiple-asset accounts, the annual deductions for depreciation may be seriously exaggerated.

The National Industrial Conference Board survey and other studies have indicated that there is a direct relationship between the use of open-end multiple-asset accounts with the straight-line method or the sum-of-the-years-digits method and the incidence and degree of failure to meet the reserve ratio test. These studies also show that the use of these depreciation techniques greatly increased after issuance of the 1962 Guideline Procedure.

If either the straight-line or the sum-of-the-years-digits method is used to calculate depreciation, the amount of the depreciation deduction is the product of the rate of depreciation times the total original cost of equipment that is still in use. Thus, the longer equipment is

kept in use, the larger such total original cost and the larger the current depreciation deduction, assuming the depreciation rate remains constant.

Example 1. Assume that early in 1963, Taxpayer A acquired for $8,000 one light-weight general-purpose truck which he depreciates under the straight-line method over the four-year life provided in the 1962 guideline procedure. (Assume also that A estimated that the salvage value of the truck was less than 10 percent and therefore may be disregarded.) Thus, Taxpayer A uses a 25 percent rate and claims a depreciation allowance of $2,000 per year with respect to the cost of such truck. At the end of 1965, Taxpayer A will have had total depreciation deductions of $6,000 and will have a remaining undepreciated cost of $2,000, which he will recover in 1966.

Assume further that Taxpayer A acquires a second similar truck in 1966. If A places the cost of second truck in a separate account and uses the same method and rate, he will recover $2,000 per year in depreciation for the years 1966 through 1969 with respect to the second truck. Thus, he will have a total depreciation deduction of $4,000 for 1966 and $2,000 in each of 1967, 1968 and 1969. He will not have depreciated the full cost of the second truck until the end of 1969.

However, if A were to place the cost of the second truck in the same account as the cost of the first truck, the original cost in such account would become $16,000, assuming that the first truck is not retired. At the 25 percent rate applicable for the 4 year guideline life, A would have $4,000 of depreciation for 1966 $4,000 for 1967 and would exhaust the account by a deduction of $2,000 in 1968. Thus, A would have exaggerated his depreciation deductions so as to recover the full cost of the second truck in two and one-half years instead of the four years prescribed by the guideline procedure.

Example 2. If Taxpayer C and Taxpayer D both acquire $10,000 of equipment in every year and they each use the straight-line method with a 10-year useful life, their current depreciation deductions would be the same if they kept their equipment for the same length of time. However, if C keeps his equipment for 15 years and D for 10 years, C's depreciation deduction would be greater because the total cost of his equipment still on hand is greater. Thus, after 15 years C's deduction is $15,000 per year and D's is $10,000 per year. ($150,000 x 10% versus $100,000 x 10%). Thus, C exaggerates his deduction for current acquisitions by merging their cost into an account which contains the cost of overage assets. This exaggeration encourages retention of old assets and runs contrary to the policy of encouraging modernization of equipment.

During normal periods, the taxpayer's depreciation rate can be adjusted to keep depreciation deductions consistent with replacement practices. That is, if equipment is kept longer, the depreciation rate will be reduced. (The depreciation rate is determined from the useful life and the depreciation method. The longer the useful life the lower the rate. Thus, under the straight-line method, if a 10-year useful life is used, the rate is 10 percent; if a 20-year life is used, the rate is 5 percent).

During the transitional period under the Guideline Procedure, depreciation rates cannot as readily be adjusted because of the liberal transitional allowance and the minimal adjustment rules. Therefore, if open-end multiple-asset accounts are used with the straight line or sum-of-the-years-digits method during the transitional period, exaggerations of depreciation deductions occur. With year's acquisition accounts and with item accounts, such exaggeration does not occur. (A year's acquisition account is one which contains only the cost of equipment acquired in that one year; an item account contains the cost of only one piece of equipment.) Under the year's acquisition or item account technique, when a

piece of equipment is held for a period longer than the life used to calculate its depreciation, its cost does not continue to enter into the base used to calculate current depreciation on the other remaining assets. This prevents exaggeration of the current deduction. For instance in example 2 if the over 10-year-old property ($50,000) were not included in the depreciable base, C's deduction would be $10,000 (like D's) and not $15,000.

Consequently, beginning in the fourth taxable year (1965 for calendar year taxpayers) to which the 1962 Guideline Procedure applies, taxpayers will not be permitted to use the Guideline Procedure if the cost of current acquisitions of equipment is recorded in open-end, multiple asset accounts and depreciation for these accounts is calculated under either the straight line method or the sum-of-the-years-digits method. If either of these methods of depreciation is used and the taxpayer wishes to use the Guideline Procedure, the cost of assets purchased in the fourth and subsequent taxable years to which the Procedure applies, must be recorded in "year's acquisition" accounts or in "item" accounts.

If a declining balance method is used to calculate depreciation, then open-end, multiple-asset accounts may continue to be used. Under the declining balance method, depreciation is computed on a base which is diminished each year by the amount of depreciation already deducted. Hence, if the declining balance method of depreciation is used, any gross exaggeration of current deductions due to an extensive amount of overage property in use is not possible.

Special Rule for Certain Accounts Depreciated Under the Straight-Line Method

Taxpayers may not use the Guideline Procedure for the third taxable year to which it applies (1964 for calendar year taxpayers) with respect to a guideline class if the cost of any equipment in that guideline class acquired in the third taxable year is depreciated under the straight-line method, unless a year's acquisition account or item accounts are used or unless one of the following exceptions applies:

(1) The taxpayer used the straight-line method for all equipment within that guideline class which was acquired in the second taxable year (1963 for calendar year taxpayers) and recorded the cost of those assets in open-end multiple-asset accounts.

(2) The taxpayer (not covered by exception (1)) planned to adopt the straight-line method to depreciate assets acquired in the third taxable year and to record the cost of those assets in open-end multiple-asset accounts, and he demonstrates to the Internal Revenue Service that he has already placed substantial reliance on the prior rules in his planning. (For example, the taxpayer had, prior to the date of this release, made a public announcement of earnings based on such plan that would be significantly changed if the use of the plan were not permitted.)

This special rule does not apply in the case of taxpayers whose income tax return for such third taxable year is due on or before February 28, 1965 (without regard to extensions of time).

Examples:

(1) Taxpayer X, who reports on a calendar year, has recorded the cost of equipment purchased prior to 1954 in one multiple asset account for which depreciation is calculated under the straight-line method. The cost of all assets purchased from 1954 through 1963 is recorded in one account for which depreciation is calculated under the declining balance method.

X purchased $1,000,000 of equipment in 1964. He may not use the guideline procedure (unless the substantial reliance exception applies) if he adds this cost to the previously established straight-line account. If he chooses, he may add it to the declining balance account and the guideline procedure would be available.

(2) Taxpayer Y, who reports on the calendar year and who commenced operations in 1955, has consistently used the sum-of-the-years-digits method, and recorded the cost of equipment in one open-end account.

Y purchased $2,000,000 of assets in 1964, $1,000,000 in 1965 and $1,500,000 in 1966. Y desires to use the "guideline" procedure for 1964 and subsequent years. The cost of the 1964 acquisitions may be recorded in the previously established open-end account. The cost of the 1965 acquisitions may not be added to the previously established account but should be recorded in a separate year's acquisition account if the taxpayer wants to use a multiple asset account for which depreciation is calculated under the sum-of-the-years-digits method. Similarly, the cost of the 1966 acquisitions should be recorded in a separate year's acquisition account for 1966 if the sum-of-the-years-digits method is used.

SOURCES OF INFORMATION ON OPERATION OF GUIDELINE PROCEDURE

The Treasury Department has gathered information from numerous sources in conducting its review of the 1962 Guideline Procedure, leading to the present changes. The pertinent findings are discussed in this memorandum.

I. Special Survey of Corporate Guideline Depreciation and the Investment Credit, Department of Commerce, Office of Business Economics 1/

The first major source of information on the operation of the new guideline procedure was a special survey of corporations conducted in April and May 1963 by the Office of Business Economics, Department of Commerce. About 6,200 of the 9,000 corporations receiving questionnaires responded, of which 5,440 companies supplied usable information.

Tax Benefits

A major finding of this early survey was that corporate depreciation allowances for tax purposes in 1962 totaled about $27.7 billion or $4.1 billion more than in the previous year. Sixty percent of this increase, or about $2.4 billion, was attributable to the 1962 Guideline Procedure, since the normal increase in depreciation due to growth of productive facilities would have been about $1.7 billion in the absence of the new depreciation rules. As a result of the Guideline Procedure, corporation income taxes were about $1-1/4 billion lower than otherwise.

1/ Published in an article by Lawrence Bridge, "New Depreciation Guidelines and the Investment Credit, Effect on 1962 Corporate Profits and Taxes," Survey of Current Business, July 1963.

Depreciation Deductions by Guideline Use and Non-guideline Use

The survey also found that corporations electing to use the guidelines in 1962 accounted for $14.8 billion or almost 55 percent of total corporate depreciation allowances in 1962. For these firms, the guideline system resulted in an increase of almost one-fifth in depreciation deductions in 1962.

Rate of Adoption and Reasons

About 53 percent of the corporations surveyed indicated they would use the Guideline Procedure.

Corporations that had decided not to use the guidelines were asked to indicate briefly their reasons. Most of these companies stated the use of the guidelines afforded no appreciable tax saving or that management preferred the existing procedures. This is not surprising since it was recognized at the time the 1962 Guideline Procedure was published that many companies already used lives as short as the guideline lives. Only 5 percent of the respondents with 3 percent of the depreciation indicated concern that the "reserve ratio is or will be too high."

Smaller companies were less inclined to use the guidelines than larger enterprises. This too is consistent with expectations at the time the 1962 Guideline Procedure was published. Small businesses frequently did not need the guidelines since in 1962 they already were using depreciable lives shorter than those used by the large firms. Studies indicate that this is a consistent pattern in industry after industry.

Table 1 provides data from Internal Revenue Service, "Statistics of Income," concerning the aggregate effective depreciation rates for corporations by size in the period just before the publication of the 1962 guidelines. It is clear that the effective depreciation rates decline as the size of the business becomes larger. This means that the smaller the firm the shorter the average useful tax life.

Another reason for anticipating that small business would not generally elect the guidelines was that small corporations did not fully utilize the opportunities to increase depreciation deductions that were available to them before 1962. In a 1961 Treasury study, it was found that only 36 percent of small companies used the additional first-year depreciation allowance. In addition, as shown in Table 2, small firms made far less use of the accelerated depreciation methods than did larger firms.

II. Internal Revenue Service Special Tabulation of Depreciation Deductions for 1962 under Revenue Procedure 62-21

The results of a special tabulation of the 1962 depreciation deductions claimed on income tax returns by nonfinancial corporations with total assets of $25 million or more, prepared by the Statistics Division, Internal Revenue Service, are presented in Table 3.

As shown in Table 3, there were almost 2,000 nonfinancial corporations in 1962 that reported total assets of $25 million or more on their income tax returns and these accounted for about 58 percent of the total depreciation claimed by all corporations in 1962.

Nearly two-fifths of these companies (a lesser proportion than found in the Commerce survey) reported that they had elected to use the Guideline Procedure for part or all of their depreciable assets. This data for 1962 understandably understates the depreciation actually claimed under the Guideline Procedure. Some companies may not have reached a decision to use the Procedure which they could affirm at time of filing their 1962 tax returns. Others may intend to have their depreciation deductions examined under the Guideline Procedure but did not explicitly indicate this on their 1962 tax returns because they were not required to do so at time of filing. To a lesser extent, still others may have adopted the Guideline Procedure but failed to supply information to this effect on their returns.

III. National Industrial Conference Board Survey of Depreciation Practices

A depreciation survey was undertaken for the Treasury by the National Industrial Conference Board (NICB) in the fall of 1964 to obtain comprehensive data on company experience under the Guideline Procedure.

Coverage and Response Rate

The NICB questionnaire was sent to a panel of nearly 1,000 large manufacturing corporations. About 475 or roughly one-half of the companies receiving questionnaires produced usable responses. These responses reported total depreciable assets of over $106 billion at the end of 1963, or about 55 percent of the depreciable assets of all manufacturing corporations (21 percent of the depreciable assets of all corporations).

Adoption of the Guidelines

Of the companies furnishing usable responses 63 percent indicated they had adopted the guideline procedures for the bulk of the depreciable assets employed in their principal line of business activity. 1/

The 297 responding companies indicating that they had adopted the guidelines reported total depreciable assets in 1963 of about $77.5 billion or about 40 percent of the depreciable assets of all manufacturing corporations. While the survey panel does not strictly represent a statistical sample of corporate enterprise as a whole, its coverage of depreciable assets in the manufacturing sector is so comprehensive it can be relied on to reflect major trends and developments in the depreciation area.

Reasons for Non-adoption

Consistent with prior studies of reasons for not adopting the guidelines, expectation of failure to qualify under the reserve ratio test was of relatively minor importance among the reasons cited. The

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1/ The NICB survey shows that a greater percentage of businesses adopted the Guideline Procedure than is indicated by either the Internal Revenue Service or Department of Commerce surveys. The increase in the rate of adoption between the Commerce and NICB studies may be attributable to the facts that the NICB surveyed only large companies and the NICB survey was more recent. In the year and one-half between the Commerce and NICB surveys, businessmen had more time to weigh the benefits of the Guideline Procedure.

It is also expected that as more and more tax returns for 1962 and later years are examined (and in some of the NICB cases depreciation deductions for 1962 had been examined by the Internal Revenue Service), more taxpayers will turn to the Guideline Procedure to support their depreciation deductions or to curtail any examination of the depreciation records. This should increase the rate of adoption beyond that indicated by the NICB survey.

major reason cited by the NICB panel for non-adoption was that tax lives were already equal to or shorter than the guidelines. As stated earlier, this is consistent with the results expected when the 1962 Guideline Procedure was adopted.

Anticipated Experience under the Reserve Ratio Test

Some 277 companies or all but a handful of the 297 responding guideline adopters reported on their anticipated experience under the reserve ratio test for 1965. About 87 percent of these 277 companies indicated they expected to fail the basic reserve ratio test under the 1962 Guideline Procedure. These companies held about 88 percent of the total depreciable assets reported by the 277 companies. The range of passing and failing and the average deviation are shown respectively in Tables 4 and 5.

Of the 87 percent which did not expect to qualify under the basic reserve ratio test, some 68 percent indicated they also would not qualify under the "trending" rule. Thus, about 40 percent of al reporting guideline adopters expected to qualify either under the basic reserve ratio test or under the trending rule set forth in the 1962 Guideline Procedure.

Causes of Failure

About one-half of the companies which expected not to qualify under the 1962 Guideline Procedure reported that a reason was insufficient time to adjust to the shorter guideline lives. An almost equally frequent reason cited was that it was considered uneconomical to retire assets at the end of the time period represented by the guideline lives.

Additional depreciation generated on "fully depreciated assets" restored to or retained in multiple-asset accounts was cited by about one-third of the companies. Irregular patterns of investment or additions to depreciable accounts was another factor, cited by about one-quarter of the firms. (**See Table 6.**)

Effects of the New Rules

1. Effect of new 15 percentage point transitional allowance in 1965

The 15 percentage point transitional allowance deals with the major cause of nonqualification cited by the panel--inadequate time to adjust to the new guideline lives. It will allow taxpayers a longer period to adjust to the new guideline lives.

The addition of the 15 percentage point transitional allowance alone will increase the percentage of reporting guideline-using companies which would automatically qualify from about 40 to about 75 percent.

2. Effect of the new guideline form

The guideline form alternative was directed toward another major cause of failure of the test--irregular additions of depreciable assets which led to erroneous results under the tabular method of applying the reserve ratio test because the table assumes constant rates of growth.

To test the effect of the new guideline form alternative in applying the reserve ratio test, a follow-up survey was made by the NICB of all guideline-using companies which expected to fail the basic reserve ratio

test (238 companies). These 238 companies included 72 companies which indicated they would fail the basic reserve ratio test by 15 percentage points or more. The response to this follow-up survey was approximately 55 percent (128 companies), and included 36 of the 72 companies which expected to fail the basic reserve ratio test by 15 percentage points or more.

As shown in Table 7, the use of the guideline form itself reduced the expected margin of failure below 15 percentage points for 24 companies or two-thirds of the 36 companies otherwise unable to qualify even with the transitional allowance. Of the remaining 12 companies, two would be enabled to qualify under the trending rule.

The results indicated that the combination of the 15 percentage point transitional allowance and the new guideline form alternative, including its use with the trending rule, would permit all but about 7.8 percent of responding companies which expected to fail the basic reserve ratio test to qualify under one or more of the new test rules. This small group of companies would represent only about 6.7 percent of all responding guideline-using companies in the NICB panel.

In addition to reducing to a small percentage the number of taxpayers who do not meet any of the tests, the guideline form alternative substantially increased the margin of qualification for a large proportion of otherwise qualifying companies. About 20 percent of the responding companies which would otherwise fail the basic reserve ratio test were able to pass with the guideline form. In addition, the new guideline form

appeared to reduce the average margin by which reserve ratios exceeded the reserve ratio standard by some five percentage points as compared with consistent use of the table method. A minority of the companies did not do as well under the guideline form as under the original table method. However, since the guideline form is optional, it will not work to their disadvantage. Eliminating companies that did not do as well under the guideline form, the average net improvement as a result of the guideline form option was substantially greater than five percentage points.

3. Depreciation calculation techniques

The NICB survey showed that exaggerated depreciation deductions resulted from the interplay of open-end multiple-asset accounts with straight-line and sum-of-the-years-digits (SYD) depreciation methods. This cause of failure of the reserve ratio test is dealt with by the new constraints on inappropriate depreciation calculation techniques.

As shown in Table 8, some 47 percent of the respondents that expected to fail the basic reserve ratio test had switched to open-end accounts after adopting Revenue Procedure 62-21. Among companies **expected to pass, there was relatively little switching to open-end accounts.** A switch to open-end accounts was typically combined with the use of straight-line and SYD methods since 80 percent of the depreciation claimed by switchers was calculated under the straight-line or SYD method and only 20 percent under a declining balance method. In contrast, firms continuously using open-end accounts calculated about

one-half their depreciation deductions under a declining balance method; firms which use year's acquisition accounts both before and after adopting the Guideline Procedure calculated about 36 percent of their depreciation under a declining balance method. (See Table 9.) Table 10 shows that taxpayers who switched to open-end accounts after adopting the Guideline Procedure were more likely to fail the reserve ratio test and to fail it by a larger margin than those who consistently used open-end, single asset or year's acquisition accounts.

"Booking" of Tax Depreciation

More than 80 percent of responding companies expecting to fail the test did not "book" their tax depreciation for purposes of their general financial statements. In contrast, companies which "booked" their tax depreciation tended to have a better record with respect to the expected margin of failure.

IV. Specific Industry Studies and Other Information Sources

In addition to the basic statistical information on the operation of the guideline system provided by the NICB survey, the Commerce survey, and Internal Revenue Service data, the Treasury has obtained highly useful material from other sources.

Trade Associations and Business Groups

Data have been furnished on a confidential basis to the Treasury by major business groups and trade associations which throw important light on their position with respect to the reserve ratio test and the effectiveness of the new changes. The Treasury's study of the working of the guideline system also included field interviews with the management

of selected firms in various industries, together with pilot studies and actual case testing of new features of the reserve ratio test, such as the guideline form. The Department has also talked with particular taxpayers who submitted valuable comments and observations on the guideline system and possible improvements therein; it has also received valuable advice and insights from outside economists, accountants and attorneys.

General Consistency of Findings with NICB Survey Results

The findings from these other sources have been generally consistent with those which emerged from the NICB survey. In particular, the findings with respect to non-manufacturing corporations, such as electric and gas utilities and railroads, indicated results similar to those shown by the NICB survey which was confined almost entirely to manufacturing corporations.

These other sources have shown that a defect in the original reserve ratio test lay in the fact that the tables providing the reserve ratio standards assume a constant uniform rate of growth. The original tabular method, while effective for many taxpayers, was found to be not well adapted to the situation of many taxpayers with irregular or fluctuating additions to their depreciable property accounts.

The original 3-year transitional period was found generally to be too short a period for taxpayers to make the transition from the equipment lives previously used to the new guideline lives. Many industries were found to be in a transitional period to a new technology and more modern retirement practices requiring additional time which will be facilitated by the new liberalized transitional rules.

The original adjustment table with its maximum 25 percent lengthening of tax life in the event of failure of the test was found to be too severe in its possible impact. This led to the formulation of the new more moderate and gradual adjustment provisions, geared in part to the margin of excess over the appropriate reserve ratio standard.

There were also widespread indications that the use of straight-line and sum-of-the-years-digits methods of depreciation in combination with open-end accounts were resulting in excessive and unintended rates of depreciation. These conditions led to high reserve ratios and serious difficulties under the test. The treatment of overage property, heavily depreciated under previous methods and added to the depreciable base under the new guideline grouping procedures, aggravated these problems. The new restrictions on the use of open-end accounts with straight-line and sum-of-the-years-digits methods of depreciation were indicated to be effective in dealing with these defects.

Businessmen, trade associations, and other industry representatives as well as economists and tax practitioners almost universally expressed the view that the guideline lives were quite liberal. There also appeared to be a broad consensus that the major technical defects of the reserve ratio test are eliminated by the present improvements. Thus, in its revised form, the reserve ratio test can play an important role in the tax structure, assisting business in its continual re-examination of modernization policies. **The reserve ratio test, through its objective**

rules, can effectuate major savings in the burden of compliance and administration in the depreciation area and obviate the uncertainties and non-uniformities that arose under the previous system.

Table 1

Effective Depreciation Rates for Corporations With
Net Income in All Industrial Groups
($000)

Assets	Number of returns with net income	Depreciation allowance for year	Depreciable assets (gross)	Effective depreciation rate
$1 - 25	120,147	$ 101,759	$ 849,770	.120
25 - 50	100,603	182,228	1,841,161	.098
50 - 100	131,645	404,027	4,712,168	.085
100 - 250	171,639	1,071,796	13,143,979	.082
250 - 500	83,021	967,700	12,765,660	.076
500 - 1,000	43,710	930,459	12,990,576	.072
1,000 - 2,500	26,475	1,039,302	14,865,893	.069
2,500 - 5,000	11,075	741,273	10,914,838	.068
5,000 - 10,000	6,584	719,085	10,993,719	.065
10,000 - 25,000	4,511	1,009,733	16,058,975	.063
25,000 - 50,000	1,609	846,885	14,537,481	.058
50,000 - 100,000	901	1,016,852	19,088,192	.053
100,000 - 250,000	697	1,865,780	36,745,314	.051
250,000 - or more	543	8,775,159	208,589,185	.042
Total	715,589	19,769,298	378,096,911	.052

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Source: Statistics of Income, Corporations, 1961-1962, p.254

Table 2

Percent of Depreciation Claimed Which is on Accelerated Methods by Size of Firm: All Industries Reporting Depreciation, 1960-1961

Size of firm: total assets ($000)	Number of returns	% of depreciation under accelerated methods (Post 1953 assets only) Assumption 1/	2/
$ 0- 100	514,771	21.1%	26.8%
100- 500	304,121	34.7	30.7
500- 1,000	51,128	39.6	53 0
1,000- 5,000	45,054	44.3	61.1
5,000- 10,000	7,926	44.1	76 0
10,000- 25,000	5,565	43.2	73.1
25,000- 50,000	2,039	47.3	81.8
50,000-100,000	1,089	48.6	83.2
100,000-250,000	734	50.7	90.0
250,000 and over	550	46.5	92.9
TOTAL	932,977	43.0	70.0

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1/ Assumes that all straight-line depreciation not attributable to particular time period is generated by post-1953 assets

2/ Assumes that all straight-line depreciation not attributable to particular time period is generated by pre-1954 assets.

Table 3

DEPRECIATION ALLOWANCES OF NON-FINANCIAL CORPORATIONS WITH TOTAL ASSETS OF $25 MILLION OR MORE
NUMBER OF ACTIVE CORPORATION RETURNS AND DEPRECIATION CLAIMED UNDER REVENUE PROCEDURE 62-21,
BY SIZE OF TOTAL ASSETS, 1962

Size of total assets	Number of active corporation returns			Depreciation claimed		
	Total	With depreciation under Revenue Procedure 62-21	Percent with depreciation under Revenue Procedure 62-21	Total (Million dollars)	Under Revenue Procedure 62-21 (Million dollars)	Percent under Revenue Procedure 62-21
	(1)	(2)	(3)	(4)	(5)	(6)
Returns with total assets $25,000,000 or more:						
Total	1,957	734	37.5	15,907	7,255	45.6
$25,000,000 under $250,000,000............	1,669	575	34.5	4,645	1,453	31.3
$250,000,000 under $1,000,000,000..........	223	118	52.9	4,875	2,475	50.8
$1,000,000,000 or more....	65	41	63.1	6,387	3,327	52.1

Statistics Division, Internal Revenue Service

NICB Survey of Depreciation Practices

Table 4

Percent of Procedure Adopters Whose Actual Reserve Ratios in 1962 and 1965 Occurred in the Following Classes of Deviation from Their Appropriate Upper Limits.

(Based on a total of 273 companies)

Percentage points of expected deviation*	Percent of adopters 1962	Percent of adopters 1965
- 20 & below	1.8	0
- 19 to -15	2.2	1.1
- 14 to -10	4.8	1.1
- 9 to - 5	8.8	1.8
- 4 to - 1	17.6	8.1
- 0 -	3.3	1.8
1 to 4	15.4	16.1
5 to 9	22.3	20.9
10 to 14	14.3	22.7
15 to 19	5.8	14.3 1/
20 & above	3.7	12.1 1/
	100.0	100.0

1/ Combined 26.4 percent of companies failing by 15 or more percentage points represents 72 out of the 273 companies.

*Note: Percentage points of expected deviation equal actual reserve ratio minus appropriate upper limit. Minus signs therefore indicate expected passing of the test.

Note: Figures shown in this table are subject to minor revisions.

NICB Survey of Depreciation Practices

Table 5

Average Size of Expected Deviation of Actual
Reserve Ratios from Appropriate Upper Limits

	Percentage points of expected deviation 1/	
	1962	1965
Adopters with Actual Reserve Ratios in excess of Upper Limits	9.1	11.7
All Adopters	3.1	9.4

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1/ Actual reserve ratios minus appropriate upper limits.

Note: Figures shown in this table are subject to minor revisions.

NICB Survey of Depreciation Practices

Table 6

Reasons for Expected Failure of Basic Reserve Ratio Test

Percentages based on 233 companies expected to fail which furnished this information,

Reasons cited	Percentage of companies citing this reason
Not enough time to adjust to shorter guidelines	49%
Uneconomical to retire assets	48
"Fully depreciated assets"	33
Irregular additions	23
Broad spread of service lives 1/	15
Green accounts	2
Single asset accounts	0
Other	7
Total	177 2/

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1/ Wide dispersion of retirements around the average life of assets in combination with certain irregular growth patterns.

2/ Since percentages are based on the number of companies furnishing this information and some companies gave multiple reasons, the sum of the individual percentages exceeds 100 percent. The excess of the total over 100 percent indicates the extent to which multiple reasons were cited.

Note: Figures shown in this table are subject to minor revisions.

NICB Survey of Depreciation Practices
Table 7

Results of Testing New Guideline Form Alternative with 128 Companies
Which Expected to Fail Basic Reserve Ratio Test under Revenue Procedure 62-21

Frequency distribution - Number of Companies

Margin of failure under original basic test: Percentage points	Results under new guideline form: Pass by any margin	Fail: Margin of failing under new alternative basic test: Percentage points: 1 - 4	5 - 9	10 - 14	15 - 19	20+	Total
1 - 4	13	9	7	1	0	0	30
5 - 9	8	10	7	2	1	1	29
10 - 14	3	7	13	6	3	1	33
15 - 19	2	1	8	6	3 1/	0 1/	20
20+	0	3	2	2	4 1/	5 1/	16
Total	26	30	37	17	11	7	128

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1/ Of the 12 who fail by 15 or more points on both tables and form, 2 pass the trending rule. Thus, 10 or 7.8 percent fail all tests.

Note: Figures shown in this table are subject to minor revisions.

NICB Survey of Depreciation Practices

Table 8

Asset Grouping Practices Used for Tax Purposes Before and After Adoption of Revenue Procedure 62-21, as Percent 1/ of Companies that Expected to Fail and Pass the General Rule

	Number of companies	Types of depreciation accounts used							
		Before adoption				After adoption			
		Single asset*	Year's acquisition	Open-end	Other	Single asset*	Year's acquisition	Open-end	Other
Companies expected to fail	236	54%	36%	19% 2/	3%	15%	25%	66% 2/	8%
Companies expected to pass	37	46	43	30	3	24	43	38	5

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* Item accounts.

1/ Will add to more than 100 percent because a number of companies reported use of more than one grouping method.

2/ Indicates 47 percent in this group switched to open-end accounts.

Note: Figures shown in this table are subject to minor revisions.

NICB Survey of Depreciation Practices

Table 9

Depreciation Claimed for Tax Purposes in 1963 Under Revenue Procedure 62-21, by Responding Corporations Employing Open-End Multiple Asset Accounts, Classified by Depreciation Method and Asset Grouping Practice

($ millions)

Asset Grouping Practices	Number of companies	Depreciation method				
		Straight-line	Declining balance	Sum-of-years digits	Other	Total
Open-end multiple-asset accounts used after, but not before adoption	122	$537.6 41.0%	$266.5 20.3%	$505.2 38.5%	$1.9 .2%	$1,311.2 100.0%
Open-end multiple-asset accounts used before and after adoption	52	$608.3 25.5%	$1,156.7 48.4%	$624.8 26.1%	$ .2 -	$2,389.9 100.0%
Year's acquisition accounts used before and after adoption	55	$467.8 53.2%	$316.8 36.1%	$93.8 10.7%	- -	$878.3 100.0%

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Note: Figures shown in this table are subject to minor revisions.

NICB Survey of Depreciation Practices

Table 10

Companies Adopting Guideline Procedure Classified by Asset Grouping Practice and by Passage or Expected Margin of Failure of General Rule, 1965

Percentage frequency distribution

	Open-end multiple-asset accounts used after but not before adoption	Open-end multiple-asset accounts used before and after adoption	Single asset (or item accounts) used before and after adoption	Year's acquisition accounts used before and after adoption
Number of companies	122	52	42	55
Pass	4%	17%	20%	20%
Expected margin of failure: (percentage points)				
1 - 14	57	64	62	53
15 or more	36	19	11	20
Not reported	3	0	7	7
Total	100	100	100	100

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Note: Figures shown in this table are subject to minor revisions.

TREASURY DEPARTMENT
Washington

FOR RELEASE: P.M. NEWSPAPERS
WEDNESDAY, FEBRUARY 17, 1965

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE GOVERNMENT-INDUSTRY CONFERENCE
OF THE NATIONAL INDUSTRIAL CONFERENCE BOARD
AT THE SHERATON-PARK HOTEL, WASHINGTON, D. C.
WEDNESDAY, FEBRUARY 17, 1965, 11:15 A.M.,EST.

It is always a pleasure to appear at any gathering sponsored by the National Industrial Conference Board, which is one of the great economic forums of our country and a vital force for economic progress. As just one example of your excellent efforts, your survey of company experience with the Reserve Ratio test under the 1962 Depreciation Guidelines and Rules has been most useful to the Treasury Department in its review of the workings of that test. President Johnson will have more to say about that in his address today.

The economic weather in that February of four years ago, when you last held a Government-Industry conference, was a far cry from the balmy economic climate we enjoy today. We were then in the trough of a recession, and our economic problems were legion. I will not review all the immense advances we have since made, for you are thoroughly familiar with them. Instead, I would like to talk briefly about one area in which, while we have made material progress, we must now move ahead even more quickly and decisively -- our balance of payments. I would then be happy to answer any questions any of you may have.

Last week, as you know, President Johnson sent to the Congress a special Message, in which he reasserted in unmistakable terms our determination to end our balance of payments deficit, assessed the progress we have already made and the problems that confront us, and proposed additional measures to speed us on our way toward balance.

We need these new measures, as the President has made emphatically clear, not because our advances have been illusory or temporary or slight -- for they have been sound and strong and lasting. We need these new measures because, solid as our progress has been, we need more of it now, not tomorrow.

When a new Administration took office four years ago, the United States had just experienced its third successive year of large payments deficits. On the basis of regular transactions, these deficits had averaged almost $4 billion a year from 1958 through 1960, and had touched off an increasing loss of confidence in the dollar. They brought with them, as well, an accelerating outflow of gold amounting to more than $5 billion in the same three-year period -- an outflow that reached a climax in the Fall of 1960, when speculators pushed the price of gold in London up to $40 an ounce.

There were those who believed then -- as there are those who believe now -- that we could not simultaneously advance our economic growth at home and move toward balance in our international accounts. The only sure way, they insisted, to restore balance to our international payments was to clamp down severely on credit at home -- despite the harm that would visit upon an already ailing economy. To promote economic expansion at home -- and adopt credit policies to nourish that expansion -- would, they warned, invite a rising tide of imports which would inevitably aggravate our payments deficits.

That view might well have been correct if our situation had been the classic one in which domestic inflation and over-consumption foster deficits in a nation's international accounts. But our situation was entirely different, for our balance of payments deficits existed side-by-side with excessive unemployment, under utilized manufacturing capacity and stable price levels. We had, therefore, to seek greater economic growth at home -- and to seek it in a way that would advance, rather than retard, the reduction of our payments deficit.

We were convinced -- and events have more than upheld our conviction -- that the way to enduring progress in our balance of payments was through sound and strong economic growth, accompanied by basic price stability. For only in such a domestic climate could we achieve the gains in productivity essential to improving our international competitive position. And only a flourishing domestic economy would proveattractive to both foreign and domestic private investment.

Obviously, however, we could not rely on domestic expansion alone, for although it held the long-range answer to our payments problem, it could not solve the problem immediately before us. It was imperative that, as we moved toward balance over the long run, we also make prompt and substantial reductions in our payments deficit. It is in this area that our performance has been disappointing and must be improved.

Even though much more remains to be done, there has been much solid progress during the past four years. We set in motion a broad array of special measures designed to attack directly every major area of weakness in our international accounts. We adapted our monetary policy

to the dual needs of external balance and domestic growth -- raising short-term interest rates by nearly 1-3/4 percent, a 75 percent increase -- to keep them reasonably on a par with those abroad. And this policy is being continued. At the same time ample amounts of long-term credit were made available for domestic growth. We took vigorous steps to encourage exports, instituting an entirely new system of export credit guarantees. We drastically reduced the adverse payments impact of government outlays overseas. We eliminated the attraction of foreign tax havens for our private capital, and we reduced the special exemptions given tourists to make duty free purchases abroad.

Over the past four years, our commercial exports -- excluding those financed by the government -- have grown by more than one-fourth, boosting our commercial trade surplus to a new high of $3.7 billion -- $900 million more than in 1960 and $1.5 billion more than in 1963. By a drastic policy of tying foreign aid expenditures to U. S. goods and services, we have saved almost $500 million. We have cut military outlays abroad by more than $200 million -- despite sharply rising prices in the countries where our forces are stationed -- and we have increased military sales abroad through the Defense Department by another $450 million. In addition, our earnings from past private investments abroad have gone up by nearly $1.9 billion.

Together, these gains add up to about $3.9 billion worth of solid improvement in our underlying balance of payments position -- enough, all else aside, to have brought our payments into actual balance last year. Our problems today arise from the fact that the full force of these gains has, thus far, been largely neutralized by a $2.5 billion boost in private capital outflows since 1960 -- $2 billion of which happened last year.

The Interest Equalization Tax proved highly successful by holding purchases of foreign securities last year to the 1960 level -- $400 million less than during 1963. But, the expansion of long-term bank loans abroad last year amounted to over $900 million -- $800 million above 1960 and $400 million above 1963. Short-term capital outflows in the form of bank credits and corporate funds rose to $2.2 billion, more than $800 million higher than the 1960 level, and $1.4 billion higher than the 1963 level despite the fact that our money-market rates remained generally in line with those abroad. And direct investment abroad by American companies -- for the most part in Canada and Europe -- exceeded the 1960 rate by almost $500 million and the 1963 rate by about $250 million. A rise of $300 million in other long-term capital outflows makes up the total $2.5 billion increase.

Alongside these swelling capital outflows, American travel and tourist spending abroad last year was $600 million higher than in 1960 -- three times the corresponding rise in foreign travel outlays in this country. Our travel deficit grew by $400 million and last year stood at $1.7 billion.

As a result of all these factors, we had a balance of payments deficit last year -- in terms of regular transactions -- of $3 billion, an improvement of only $900 million over 1960. To be sure, half of last year's $3 billion deficit occurred in the fourth quarter alone -- and some of the deterioration in the fourth quarter resulted from temporary factors. But when all this is said, there is no gainsaying the fact that our deficit is still far too large, that we cannot continue to sustain such deficits and that the data for the fourth quarter reveal weaknesses in our payments posture that must be remedied without delay. We must act -- and act now, when we can do so from a position of strength.

And let no one doubt the strength of the dollar today in all markets of the world -- a strength supported by hard facts. For while we have suffered gold losses, we have curtailed these losses in recent years. We still hold 35 percent of the entire free world monetary stock of gold. Leaving aside the $22 billion of United States government claims on foreigners, our private investments abroad by themselves exceed the total of all foreign investment plus all foreign dollar holdings both public and private by more than $15 billion. And that margin has been widening every year. Our international balance sheet grows stronger year by year. And our ability to compete in world markets remains beyond question -- our commercial trade surplus is far and away the world's largest. Last year it was more than twice the size of West Germany's -- the next largest.

Backed by such solid elements of strength, we need have no fears for the security of the dollar, as long as we demonstrate by our deeds that we are determined to bring our balance of payments deficit to an end. We must end the growth of our short-term international liabilities. It is no longer good enough merely to offset the growth of these liabilities by an even larger growth of long-term assets. When we talk of substantial improvement in 1965, I want to make it amply clear that we are not thinking of a few hundred million dollars. Even a full billion dollar improvement would not meet our needs. We can and must do considerably more.

It is for that reason that President Johnson proposed last week a ten-point program to reinforce the measures already underway. Most of you, I am sure, are by now familiar with the President's proposals. They feature a massive, many-sided attack by all sectors of the American economy upon the swelling capital outflows that, more than any other single factor, have inflated our recent international deficits. They call upon the American business man, upon the American banker, and upon all Americans to join in a truly national effort to stem the outpouring of dollars abroad.

The President has asked Congress to extend for two years the Interest Equalization Tax on purchases by Americans of foreign securities -- a tax scheduled to expire at the end of this year. That tax has proven a highly effective rein upon such purchases since legislation was submitted to Congress in July of 1963. Moreover, it has shown itself a strong catalyst to the growth of European capital markets, which are essential for the adequate financing of economic growth in the Free World in the years that lie ahead.

But it is now clear that outflows stemmed by the Interest Equalization Tax have all too frequently found other channels abroad. Last year, for example, American bank loans with maturities of over one year to foreign borrowers in developed countries rose by more than $650 million -- in contrast to a peak annual increase of $122 million for the years before the IET was proposed.

A careful analysis of these outflows shows that a large and growing portion of recent loans are definite substitutes for new security issues. It is significant, also, that of the new term loan commitments to industrial countries last year, only 15 percent financed U. S. exports -- while 28 percent went for plant expansion.

Thus the President, under authority granted by the Interest Equalization Tax law, has issued an Executive Order -- effective last Thursday, February 11 -- imposing the Tax on bank loans to foreigners with maturities of one year or more, with exemptions for borrowers in developing countries. I should make clear that the current exemption under the Interest Equalization Tax law will continue to be granted to all export-connected loans of banks, thus assuring the banks' ability to support the efforts of American business to compete more effectively abroad.

But the heart of the new program lies not in new legislation, but rather in the President's action to enlist the voluntary but active cooperation of the business and banking community with the government in cutting back sharply on the increasing outflow of dollars abroad. It is to this cooperative effort that we look for the greatest savings. We are convinced that American business will rise to the challenge. Failure is unthinkable.

The Government, will intensify its already effective efforts to stanch the dollar drain from our economic aid and military commitments abroad. At least two hundred million dollars of additional savings are in sight in this area.

And, finally, the President has set forth several other important measures to heighten the effectiveness of our export expansion program, to encourage foreign investment in U. S. securities, to foster greater foreign travel in this country and to cut the outflow of our tourist and travel dollars abroad.

What distinguishes all these measures -- and the President's
essage -- is the degree to which their success depends upon the voluntary
ooperation and support of American business and the American public.
he President has set forth, for all to understand, the challenge that
onfronts us -- and he has set forth the steps that we must take to meet
hat challenge. He has issued a call to arms to all Americans -- and
pon their response rests the solution to a stubborn, difficult and
mportant problem.

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are exempt from all taxation now or hereafter imposed on the principal or interes 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 suc bills, whether on original issue or on subsequent purchase, and the amount actual 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.

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

Immediately after the closing hour, tenders will be opened at the Federal Reerve 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 f the Treasury expressly reserves the right to accept or reject any or all tenders, n whole or in part, and his action in any such respect shall be final. Subject o these reservations, noncompetitive tenders for $ 200,000 ~~(10)~~ or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 1, 1965 ~~(11)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 28, 1965 ~~(12)~~. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, February 17, 1965

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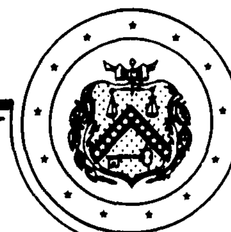
TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $ 1,000,000,000 (2), or thereabouts, of 365 (3) -day Treasury bills, for cash and in exchange for Treasury bills maturing February 28, 1965 (4), in the amount of $ 1,000,520,000 (5), to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated February 28, 1965 (6), and will mature February 28, 1966 (7), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, February 23, 1965 (8). 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. (Notwithstanding the fact that these bills will run for 365 (9) days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) 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

TREASURY DEPARTMENT



WASHINGTON, D.C.

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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 o accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury express 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 without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 1, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 28, 1965. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchang and the issue price of the new bills.

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TREASURY DEPARTMENT
Washington

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
AT THE WHITE HOUSE CONFERENCE
ON THE BALANCE OF PAYMENTS
THURSDAY, FEBRUARY 18, 1965

Today we stand at a decisive point in our drive to end our balance of payments deficits.

Last year, our deficit on regular transactions was $3 billion -- a disappointingly small improvement over the $3-1/4 billion deficit of 1963, and far too large a figure for us to accept passively after four years of strong and sustained effort to end that deficit.

But while to cite these overall figures is to throw into bold relief the challenge before us, it is also to obscure the very real and lasting progress that our program of the past four years has achieved.

We have cut the annual dollar outlay for foreign aid by almost $500 million. Today a full 85 percent of our foreign aid commitments go for American goods and services. We have also trimmed our net military expenditures abroad from $2.7 billion in 1960 to $2.0 billion last year -- a saving of $700 million despite rising costs abroad.

We have made an intensive effort to encourage American exports. Such measures as last year's tax cut, the liberalized depreciation allowances and the investment credit of 1962 -- and above all the maintenance of wage price stability -- have not only helped generate greater incomes, profits and incentives, but have also helped translate them into greater productivity and thus into greater American competitiveness in world markets.

This accomplishment, along with numerous other measures to aid exports directly, has brought rich rewards -- to American business and to our balance of payments. Our commercial exports -- those not financed by the government -- last year reached a level of $22.4 billion, 28 percent higher than in 1960 -- thus giving us a commercial trade surplus of $3.7 billion, $900 million larger than in 1960.

These efforts -- coupled with an increase of nearly $1.9 billion in our income from foreign investment -- have brought us about $3.9 billion worth of balance of payments improvement over the past four years -- enough, all else aside, to have brought actual balance in our payments last year.

Instead, we had a deficit of $3 billion. Why?

One reason is the net rise of some $400 million in our travel and tourist deficit since 1960. But the major reason is that since 1960 we have also had a rise of $2.5 billion in annual private capital outflows -- $2 billion of which occurred last year. Unless we curb these outflows all our other efforts will be nullified. And to curb them we need your help.

The Interest Equalization Tax held last year's outflow of capital into foreign securities under $700 million -- $1-1/4 billion, or more than 65 percent, below the rate in the first half of 1963 -- returning it virtually to the 1960 level. But the outflow in other forms of capital has multiplied.

Since 1960, for example:

- -- the annual increase in outstanding bank claims has grown from $1.1 billion to $2.5 billion;
- -- direct investment has risen from $1.7 billion to $2.2 billion;
- -- and incomplete data indicate that other short-term lending by corporations has grown from $353 million to somewhere around $700 million.

These -- plus a $300 million increase in other long-term capital outflows -- have sent the total outflow of private capital up from just under $3.9 billion in 1960 to over $6.3 billion last year, a rise of some $2.5 billion. What particularly concerns us today is the fact that $2 billion of that rise occurred last year.

Only a small amount of this capital went to finance our exports, and the great bulk of it went to the other industrial countries -- thus adding to their dollar holdings. It is here that we must make substantial improvement.

Last year

-- well over half of the outflow of short-term bank capital went to advanced countries;

-- well over half of new long-term bank commitments went to industrialized countries, and only about 15% of them for exports;

-- while direct investment in developing countries serves to offset outflows that might otherwise be required in the form of aid appropriations, and will not be affected by our new program, the fact is that in the first nine months of 1964 almost two-thirds of our direct investment outflow went to Europe;

-- and virtually all of the build-up in corporate liquid balance abroad occurred in the developed countries.

We recognize that, over the long run,this capital outflow comes back in the form of dividends, interest and loan repayments. We recognize that, over the long run, these outflows of capital become a source of strength and more than pay for themselves. But, in the short run, they cost our balance of payments position dearly, and it is with the short run that we must now be concerned.

The problem is that our capital outflows are simply growing too fast in relation to the inflows they generate, and in relation to the improvements we have been making in other areas of our balance of payments. While we are waiting for the return flows to mount, we look abroad and see an ever rising tide of short-term liquid claims on us -- a rise in claims that if allowed to continue will inevitably lead to further gold outflows.

Since 1957, our gold stock has declined by $7.4 billion, our liquid dollar liabilities to the monetary authorities of other countries have risen from $9 to $14 billion -- and private banks, individuals and businesses abroad hold another $11 billion. We know that these holdings are simply the essential counterpart of the dollar's position as a reserve currency and of its vital role in world trade. But we must also realize that the willingness of foreigners to accumulate additional dollars is not without limits. It is now perfectly clear that that willingness is nearing an end. The time has come when we must show rapid and clear cut progress in reducing our payments deficit.

I know that you have, in recent weeks, been reading and hearing about a so-called "attack" on the dollar and on the gold exchange system. Indeed, this disparagement of our currency comes from lofty heights -- but it is an isolated view. We need your help to make sure it remains an isolated view.

But this view is indicative of one very important fact. That is, that the power and influence of the United States throughout the world, in a political as well as a financial sense, depends on the continued strength and soundness of our dollar.

We must move now while we can still move from a position of strength. With your help we can make the swift and lasting advance that we need, thus assuring that, as our nation -- and your businesses and your banks -- grow and prosper in the months and years ahead, the dollar will continue to be the strongest currency in the world.

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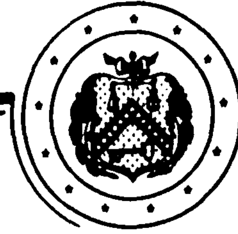
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE A. M. NEWSPAPERS,
·day, February 20, 1965.

February 19, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of ıury bills, one series to be an additional issue of the bills dated November 27, , and the other series to be dated February 25, 1965, which were offered on uary 15, were opened at the Federal Reserve Banks on February 19. Tenders were ted for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or eabouts, of 182-day bills. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing May 27, 1965		:	182-day Treasury bills maturing August 26, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.995	3.976%	:	97.961 a/	4.033%
Low	98.990	3.996%	:	97.955	4.045%
Average	98.992	3.989% 1/	:	97.956	4.043% 1/

xcepting 1 tender of $12,000
ercent of the amount of 91-day bills bid for at the low price was accepted
ercent of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 26,737,000	$ 16,737,000	:	$ 51,319,000	$ 17,069,000
w York	1,684,365,000	844,628,000	:	1,919,959,000	825,746,000
iladelphia	27,014,000	14,395,000	:	11,520,000	3,520,000
eveland	40,834,000	35,433,000	:	68,808,000	33,141,000
chmond	10,006,000	9,580,000	:	2,841,000	2,635,000
lanta	41,434,000	24,736,000	:	18,030,000	9,071,000
icago	276,421,000	120,026,000	:	194,342,000	38,967,000
. Louis	36,483,000	25,972,000	:	11,663,000	6,098,000
nneapolis	17,243,000	11,075,000	:	8,323,000	5,573,000
nsas City	23,116,000	21,708,000	:	9,018,000	7,698,000
llas	22,842,000	15,112,000	:	14,948,000	3,948,000
n Francisco	120,627,000	61,287,000	:	192,788,000	49,919,000
TOTALS	$2,327,122,000	$1,200,689,000 b/		$2,503,559,000	$1,003,385,000 c/

Includes $206,578,000 noncompetitive tenders accepted at the average price of 98.992
Includes $76,140,000 noncompetitive tenders accepted at the average price of 97.956
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 4.09%, for the 91-day bills, and 4.19%, 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-1512

Since two out of three taxpayers refunds

a

much of the underwithholding [attributable to the 1964 Act] will be reflected in

lower refunds rather than in larger tax payments due.

the increase in underwithholding as a result of the Act has a

much smaller

Therefore, the effect of the 1964 Act on

those taxpayers who do have final payments to make will be

much smaller than is popularly supposed.

Furthermore, many taxpayers voluntarily increased their 1964 withholding in response to an advisory from the Internal Revenue Service put out after the Revenue Act of 1964 went into effect ~~and this is expected to substantially reduce~~ AS A RESULT the amount of underwithholding XXXXX resulting from

A taxpayer will generally be underwithheld if he becomes a "moonlighter" and duplicates his withholding exemptions on both jobs.

A taxpayer will generally be underwithheld if his spouse enters the labor force and claims withholding exemptions.

A taxpayer will generally be underwithheld if he had new income or an increase in income on which there is no withholding, such as dividends, interest, capital gains, fees or other income from self-employment.

For these reasons -- which have nothing whatever to do with th Revenue Act of 1964 -- many taxpayers will have larger than expecte amounts of tax due for 1964, just as in any year.

All of these factors can lead to considerable underwithholding which far exceeds the amount that could result from the Revenue Act of 1964.

because between 1963 and 1964 personal income increased by more than $27 billion and employment increased by 1.5 mill

A taxpayer will generally be underwithheld if his itemized deductions are less in 1964 because of lower medical expenses, smaller charitable contributions, or perhaps because he "bunched" his itemized deductions in 1963 and took the standard deductions in 1964 in order to maximize the value of his deductions by using them up before the ta cut went into effect.

A taxpayer will generally be underwithheld if he has lost one or more exemptions in 1964 and failed to make the required adjustment in his withholding to compensate. This can occur through divorce, through the marriage of a dependent, through the employment of a dependent or for other reasons.

For a married couple with two children and a wage or salary income of $7,000 it could not exceed $23, at $10,000 it could not exceed $83, at $15,000 it could not exceed $129, and at $20,000 it could not exceed $149.

There are many reasons why a taxpayer would face larger final payment for 1964 than he had anticipated A common reason is that many taxpayers do not file quarterly declarations of tax and so do not realize the extent of their failure to keep their withholdir up to the level of their current tax liabilities until the final accounting at the end of the year. Other reasons for larger final payments include.

1. A taxpayer will generally be underwithheld if he had an increase in income during the year, more overtime, or employment for a longer period than he is accustomed to. These factors were particularly important during 1964

The fact is that since two out of three taxpayers receive refunds, much of the withholding attributable to the 1964 Act will be reflected in lower refunds rather than in larger tax payments due. Therefore, the effect of the 1964 Act on those taxpayers who do have final payments to make will be much smaller than is popularly supposed.

FOR RELEASE AM PAPERS
SUNDAY, FEBRUARY 21, 1965

UNDERWITHHOLDING IN 1964

The Treasury Department today issued the following statement in response to inquiries concerning income tax underwithholding in 1964:

"Some taxpayers have expressed concern that reduction of the 18 percent withholding rate to 14 percent last March, when the Revenue Act of 1964 went into effect, will substantially increase the size of final tax payments due for 1964.

"The fact is that the increase in underwithholding as a result of the Revenue Act of 1964 has a much smaller effect on the average taxpayer than is popularly supposed.

"For instance, in 1964, for a single person earning $4,000, the increase over 1963 underwithholding could not exceed $34. At $6,000 it could not exceed $61. At $8,000 it could not exceed $83 and at $10,000 it could not exceed $98.

TREASURY DEPARTMENT

WASHINGTON, D.C.
February 19, 1965

FOR RELEASE A.M. NEWSPAPERS
SUNDAY, FEBRUARY 21, 1965

WITHHOLDING IN 1964

The Treasury Department today issued the following statement in esponse to inquiries concerning income tax underwithholding in 1964:

"Some taxpayers have expressed concern that reduction of the 18 percent withholding rate to 14 percent last March, when the Revenue Act of 1964 went into effect, will substantially increase the size of final tax payments due for 1964.

"The fact is that since two out of three taxpayers receive refunds, much of the reduction in withholding attributable to the 1964 Act will be reflected in lower refunds rather than in larger tax payments due.

"Furthermore, the reduction in withholding attributable to the 1964 Act has a much smaller effect on the average taxpayer -- whether he has a tax payment or a refund due -- than is popularly supposed.

"For instance, in 1964, for a single person earning $4,000, the increase over 1963 underwithholding could not exceed $34. At $6,000 it could not exceed $61. At $8,000 it could not exceed $83 and at $10,000 it could not exceed $98.

"For a married couple with two children and a wage or salary income of $7,000, it could not exceed $23, at $10,000 it could not exceed $83, at $15,000 it could not exceed $129, and at $20,000 it could not exceed $149.

"There are many reasons in addition to the 1964 Revenue Act why a taxpayer would face larger final payment for 1964 than he had anticipated -- as would be true in any other year. A common reason is that many taxpayers do not file their quarterly declarations of tax and so do not realize the differences between their withholding and their current tax liabilities until the final accounting at the end of the year. The principal reasons for larger final payments are:

"1. A taxpayer is likely to be underwithheld if he had an increase in income during the year, because of a pay raise, more overtime, or employment for a longer period than he is accustomed to. These factors were particularly important during 1964 because between 1963 and 1964 personal income increased by more than $27 billion and employment increased by 1.5 million.

"2. A taxpayer is likely to be underwithheld if he has lost one or more exemptions in 1964 and failed to make the required adjustment in his withholding to compensate. This can occur through divorce, through the marriage of a dependent, through the employment of a dependent, or for other reasons.

"3. A taxpayer is likely to be underwithheld if he becomes a 'moonlighter' and duplicates his withholding exemptions on both jobs.

"4. A taxpayer is likely to be underwithheld if his spouse enters the labor force and claims withholding exemptions.

"5. A taxpayer is likely to have a larger final payment if he had an increase in income on which there is no withholding, such as dividends, interest, capital gains, fees or other income from self-employment.

"6. A taxpayer is likely to have a larger final payment if his itemized deductions are less in 1964 because of lower medical expenses, smaller charitable contributions, or perhaps because he 'bunched' his itemized deductions in 1963 in order to maximize the value of his deductions by using them up before the tax cut went into effect.

"For these reasons -- which have nothing whatever to do with the Revenue Act of 1964 -- many taxpayers will have larger than expected amounts of tax due for 1964, just as could happen in any year.

"All of these factors can lead to considerable underwithholding which far exceeds the amount that could result from the Revenue Act of 1964.

"Furthermore, many taxpayers voluntarily increased their 1964 withholding in response to an advisory from the Internal Revenue Service put out after the Revenue Act of 1964 went into effect. As a result, the amount of any underwithholding resulting from that law is expected to be substantially reduced."

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1964 Underwithholding Due to 1964 Revenue Act for Certain Wage Earners at Various Income Levels 1/

Wage income	Underwithholding in 1963 at 18% withholding rate	Underwithholding in 1964 at 14.7% withholding rate 2/	Change in underwithholding	Change in underwithholding due to early adoption of 14% withholding 3/	Change in underwithholding due to other factors in 1964 law 4/
		Single person, one exemption, standard deduction			
$ 2,000	$ 3	$(13)	$-16	$+ 8	$-24
2,500	(1)*	(1)	0	+11	-11
3,000	11	24	+13	+14	- 1
3,500	16	42	+26	+18	+ 8
4,000	22	56	+34	+21	+13
5,000	28	79	+51	+27	+24
6,000	70	131	+61	+33	+28
7,000	164	229	+65	+38	+27
8,000	209	292	+83	+46	+37
10,000	390	488	+98	+58	+40
		Married couple, with two children, standard deduction			
$ 3,000	$ 8	$ (44)	$- 52	$+ 2	$-54
4,000	6	(31)	- 37	+ 8	-45
5,000	(6)	(22)	- 16	+ 14	-30
6,000	(19)	(4)	+ 15	+ 21	- 6
7,000	21	44	+ 23	+ 26	- 3
8,000	4	52	+ 48	+ 34	+14
10,000	25	108	+ 83	+ 46	+37
12,500	194	303	+108	+ 61	+47
15,000	395	524	+129	+ 76	+53
20,000	1,002	1,151	+149	+107	+42

* Figures in parentheses are amounts of overwithholding.

1/ Withheld tax is determined from withholding tables.

2/ Average withholding rate for 1964: 2 months at 18 percent and 10 months at 14 percent.

3/ Amount of underwithholding was determined by multiplying 8 (the number of weeks of early adoption of the 14 percent rate) times the difference between 18 percent (1963) and 14 percent (1964) weekly withholding as provided in the appropriate withholding tables.

4/ Percentage reduction in withholding rate relative to percentage reduction in 1964 tax rates, and the adoption of the minimum standard deduction.

Note: If underwithholding is estimated to be $40 or more, and if the single person has $5,000 or more of wage income and the married couple has $10,000 or more of wage income, they must make quarterly declaration payments of such underwithholding.

Table 2

1965 Underwithholding Due to 1964 Revenue Act
for Certain Wage Earners at Various Income Levels 1/

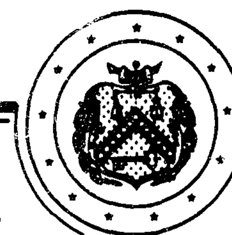
Wage income	Underwithholding in 1963 at 18% withholding rate	Underwithholding in 1965 at 14% withholding rate	Change in underwithholding
	Single person, one exemption, standard deduction		
$ 2,000	$ 3	$(24)	$-27
2,500	(1)*	(16)	-15
3,000	11	5	- 6
3,500	16	24	+ 8
4,000	22	36	+14
5,000	28	57	+29
6,000	70	102	+32
7,000	164	190	+26
8,000	209	245	+36
10,000	390	416	+26
	Married couple, with two children, standard deduction		
$ 3,000	$ 8	$ (43)	$ -51
4,000	6	(43)	-49
5,000	(6)	(43)	-37
6,000	(19)	(34)	-15
7,000	21	10	-11
8,000	4	18	+14
10,000	25	69	+44
12,500	194	247	+53
15,000	395	447	+52
20,000	1,002	1,002	0

* Figures in parentheses are amounts of overwithholding.

1/ Withheld tax is determined from withholding tables.

Note: If underwithholding is estimated to be $40 or more, and if the single person has $5,000 or more of wage income and the married couple has $10,000 or more of wage income, they must make quarterly declaration payments of such underwithholding.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE A.M. NEWSPAPERS,
esday, February 24, 1965.

February 23, 1965

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced last evening that the tenders for $1,000,000,000, hereabouts, of 365-day Treasury bills to be dated February 28, 1965, and to mature uary 28, 1966, which were offered on February 17, were opened at the Federal Reserve s on February 23.

The details of this issue are as follows:

Total applied for - $2,023,196,000
Total accepted - $1,000,704,000 (includes $35,028,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting one tender of $100,000)

High	- 95.904	Equivalent rate of discount approx.	4.040%	per annum				
Low	- 95.873	" " " " "	4.070%	" "				
Average	- 95.882	" " " " "	4.062%	" " 1/				

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 25,845,000	$ 15,845,000
New York	1,458,627,000	717,027,000
Philadelphia	10,954,000	954,000
Cleveland	69,284,000	50,484,000
Richmond	7,161,000	7,161,000
Atlanta	30,299,000	11,131,000
Chicago	298,325,000	141,846,000
St. Louis	5,465,000	3,465,000
Minneapolis	10,589,000	10,589,000
Kansas City	5,329,000	4,329,000
Dallas	31,645,000	13,645,000
San Francisco	69,673,000	24,238,000
TOTAL	$2,023,196,000	$1,000,704,000

a coupon issue of the same length and for the same amount invested, the return n these bills would provide a yield of 4.25%. Interest rates on bills are quoted n terms of bank discount with the return related to the face amount of the bills ayable at maturity rather than the amount invested and their length in actual numer of days related to a 360-day year. In contrast, yields on certificates, notes, nd bonds are computed in terms of interest on the amount invested, and relate the umber of days remaining in an interest payment period to the actual number of days n the period, with semiannual compounding if more than one coupon period is involved.

D-1514

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DRAFT PRESS RELEASE

TREASURY AND BRAZIL ENTER NEW EXCHANGE AGREEMENT

Secretary of the Treasury Douglas Dillon and the Ambassador of Brazil, Juracy Magalhaes, today signed a $53,660,000 Exchange Agreement between the United States, the Government of Brazil, and the Bank of Brazil.

Under the Agreement, which is effective for a one-year period, Brazil may request the United States Exchange Stabilization Fund to purchase Brazilian cruzeiros in amounts not exceeding the value of the Agreement. Any cruzeiros so acquired by the United States Treasury would subsequently be repurchased by Brazil with dollars.

The Agreement will assist Brazil in maintaining orderly conditions in foreign exchange markets as part of its program of economic stabilization and growth, and is designed to supplement the resources available under the $125 million stand-by arrangement announced by the International Monetary Fund on January 13, 1965. The Agreement signed today implements the Treasury portion of various United States Government economic and financial programs in Brazil in 1965, estimated to total more than $450 million, which were announced December 14, 1964 on the occasion of the signing of a $150 million program loan of the Agency for International Development.

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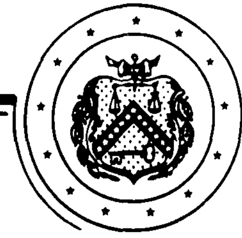
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 23, 1965

FOR IMMEDIATE RELEASE

U. S. AND BRAZIL ENTER
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D-1515

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
FEBRUARY 22, 1965
10:00 A.M.

Mr. Chairman and Members of the Joint Economic Committee:

We meet after a year of substantial progress and accomplishment. But we have no cause for complacency.

At home too many of our workers -- particularly younger people just entering their productive years and those who suffer from inexperience, lack of education, and racial prejudice -- are without jobs. As we enter the fifth consecutive year of economic advance, we must be alert both to the dangers of price pressures and of any flagging in the forces of expansion.

At the same time, our balance of payments has not shown the improvement we must have. Further action -- as outlined by President Johnson in his Message on the Balance of Payments -- is essential to the continued strength of the dollar. And, on that solid foundation, we must press forward, in cooperation with our friends and trading partners, with our effort to

D-1516

assure the capacity of the international monetary system over the years ahead to provide the reserves and credit facilities needed to support the vigorous and balanced growth of the free world economy.

Fiscal Policy and a Progressive Economy

Maintenance of a healthy rate of domestic economic expansion, free from inflation, will continue to require the coordinated use of the tools of fiscal, monetary, and debt management policy. But, within that framework, fiscal policy, and particularly tax policy, has unquestionably come to assume a more crucial role than ever before in sustaining our forward momentum and carrying out the mandate of the Employment Act of 1946.

The first important steps to spur more rapid growth through tax policy were taken in 1962. The Revenue Act of 1962, you will recall, provided for a tax credit of 7% on new investment in machinery and equipment, and in the same year the Treasury reformed and liberalized the tax treatment of depreciation, bringing up to date badly outmoded procedures

that served as a drag on new investment. Coupled with the two-stage reduction in the corporate tax rate contained in the Revenue Act of 1964, these measures provided a powerful stimulus to business investment in plant and equipment, increasing the profitability of a typical investment in new equipment by more than 30%.

Just last week we improved and liberalized the reserve ratio test procedures that accompanied the 1962 liberalization of depreciation. This action was taken after extensive studies. It will make certain that businesses which truly wish to adapt their replacement practices to the new shorter lives announced in 1962 can obtain the full tax benefits of the 1962 guidelines. For 1965 it will mean that additional taxes will amount to a maximum of $100 million rather than the $800 million that would have been the case under the original 1962 reserve ratio test procedures.

The response of private investment to tax incentives and to expanding sales and profits has been remarkable indeed.

Producers' outlays on durable equipment, after correction for price change, amounted to $26 billion in 1961 as compared to $26.6 billion in 1952. But in the three years since 1961, those same outlays, again corrected for price change, have risen to $35.1 billion, an increase of over one-third in the space of only three years. Yet, the expansion of investment has been closely geared to requirements for new productive capacity and no unsustainable capital goods boom on the 1956-57 model has been allowed to develop.

Along with the invigoration of private investment that is so basic for long-run growth, the individual tax reduction of 1964, as it becomes fully effective, is releasing $11 billion of consumer purchasing power at 1965 levels of income. The size, composition, and timing of last year's tax cut were carefully planned, and the results were almost exactly as predicted in the 1964 Economic Report of the President.

A year ago that Report projected a Gross National Product of $623 billion as the mid-point within a $10 billion range. The actual result is now estimated at $622.6. A year ago the Report estimated that with tax reduction the unemployment

rate could be expected to fall to approximately 5% at the end of the year -- as it actually did, before falling even further to 4.8% in January. The behavior of personal income, corporate profits and other measures was also in line with our expectations.

The tax reduction enacted last year continues to spur consumer and business spending, although the large initial thrust is now behind us. Later this year we will further improve the tax system, encourage price declines, and give the economy another measured and timely stimulus through the reduction and elimination of some of our excise taxes. The President's budget provides for excise tax reductions effective on July 1 that will total $1.75 billion a year when fully effective. The President will spell out the details of this program in ample time to permit consideration by the Congress before mid-year.

Over the past four years, as this record suggests, we have come to a far greater appreciation of how fiscal and tax policy can help achieve our economic goals. But much remains to be done before we can be satisfied that this policy tool can be used with the flexibility that is essential should recessionary tendencies gather force.

To meet that need, the President has urged that the Congress review its own procedures to assure prompt action on temporary tax cuts, if and when required. The lengthy and painstaking deliberations by the Congress, which are entirely necessary and appropriate before undertaking a lasting structural change in the tax structure, are not relevant to purely temporary, across-the-board, anti-recessionary cuts.

We simply must be able to count on procedures that insure an early decision in response to a Presidential proposal, or else we must give up the strongest anti-recessionary weapon in our arsenal.

At the same time, we must, of course, develop programs that will attack structural problems of unemployment and depressed areas at their roots and solve them within a framework of over-all price stability. These deep-seated problems will only yield to a concerted attack aimed directly at their causes. We are mounting just such an attack.

In a modern industrial society, those without skills, or with skills no longer in demand, suffer a heavy disadvantage Training programs such as those now being conducted under both

the Manpower Development and Training Act and the Economic Opportunity Act can make a key contribution to individual and national welfare. The Appalachia program, now under Congressional consideration, is an ambitious effort to deal in a coordinated way with a particular depressed area problem. An improved Area Redevelopment Act would be helpful in spurring growth. Carefully designed programs such as these will play a steadily increasing role in reducing unemployment and widening job opportunities.

Monetary and Debt Management Policies

The timely use of fiscal policy enables us to make far more effective use of the tools of monetary and debt management policies in meeting our internal and external economic goals. For instance, the stimulus from tax reduction, by lifting some of the burden for promoting economic expansion from monetary policy, has made extremely easy money policies at home unnecessary -- policies that would have been totally out of keeping with our balance of payments problem.

The fact is that, in a world of increasingly free trade and payments, we cannot expect to insulate our domestic money and capital markets entirely from those of other countries, nor would that be consistent with our longer-range goals of a liberal world economic order. As the President emphasized in his Economic Report, monetary policy must and will remain free to respond if the stability of the dollar is threatened, either from domestic inflation as a result of excessive demand, or from outflows of money and capital that undermine our balance of payments. But, if monetary policy is to play that role effectively, and without potential damage to the internal economy, we must also recognize the corollary need for dynamic, flexible fiscal policies in promoting domestic prosperity.

So long as we are willing in the future, as during the past few years, to use all the varied tools of financial policy flexibly, and in complementary ways, intolerable conflicts need not arise between our commitment to defend the dollar and our commitment to sustained domestic growth and prosperity Effective economic policy does not require that every tool be pushed hard in the same direction and at the same time.

What is required is that, in seeking our varied goals, we achieve a blend and a balance among our policy tools -- taking advantage of the strong points of each -- that will permit progress in several directions simultaneously.

The Debt Management Record

The use of our policy instruments in the pursuit of multiple objectives is well illustrated in an area for which I have had direct responsibility and which affects the economy almost daily: the management of the public debt.

Debt management has in recent years helped keep our market interest rates in the short-term area reasonably competitive with rates in major foreign money centers, thus minimizing interest rate incentives to the transfer of short-term funds abroad. Thus, we increased the volume of Treasury bills $5.0 billion further during 1964, helping to raise the three-month bill rate from about 3-1/2 percent at the close of 1963 to just under 4 percent today.

At the same time, however, it has been important to insure that this action, undertaken for balance of payments

reasons, did not clash with other objectives. With persistent unemployment and unused industrial capacity, we have wanted to avoid upward pressures on the structure of long-term interest rates, and to assure the availability of investment funds adequate to support the steady rise in domestic investment and economic activity.

In addition, the Treasury also has continuously before it the need to maintain a well-balanced maturity structure in the national debt, a prerequisite for flexibility in its financing decisions. This requires sizeable placements of new intermediate and longer-term securities in the market in order to offset the shortening effect of the passage of time on the term to maturity of outstanding issues. Otherwise, debt would soon pile up in the short-term area, not only risking an inflationary potential but also straining that sector of the market and using up some or all of the short-term borrowing capacity which it is prudent to hold in reserve for emergencies.

To achieve this balanced debt structure and avoid any excessive build-up of liquidity, the Treasury last year reduced

outstanding short-term debt other than Treasury bills by an even larger amount than the rise in the volume of bills. As a result, the total marketable debt due within one year actually declined by $1.0 billion. And, as in the preceding year, the Treasury's borrowing was done, on balance, without recourse to the commercial banking system -- making it the third successive year in which bank holdings of Treasury securities showed no increase. Actually, commercial bank holdings of Government debt as shown in the attached table were slightly lower at the end of January than they were four years earlier. Thus, all of the large increase in bank credit over the past four years has been used to finance private borrowers and State and local governments.

The great bulk of the Treasury's debt extension has continued to be achieved through advance refundings, a technique initiated during the preceding Administration and further developed and extensively utilized during the past four years. One important advantage of this technique is that it minimizes the impact on the market and on interest rates of our debt extension operations. Investors responded to three advance

refunding offers, in January and July 1964 and January 1965, by exchanging existing short-term holdings for $4.2 billion of bonds maturing in 20 years or more, for $7.5 billion of bonds maturing in about 9 years, and for $10.3 billion of bonds maturing in 5 to 7 years. An additional $1.5 billion of 10-year bonds was issued in the regular refunding in May 1964.

Reflecting these operations, the marketable debt due in 5 years or more rose $7.1 billion in the twelve months that ended on January 31, exceeding the $5.8 billion increase in the entire marketable debt over this period. As the attached table indicates, an amount larger than the entire $25.1 billion increase in the marketable debt since January 1961 has been financed over that period in longer-term issues; marketable debt due in 5 years or more is up $26.9 billion. Accordingly, the average maturity of the marketable debt as of January 31, 1965 was 5 years and 5 months, 4 months longer than its year-ago level and eleven months longer than in January 1961.

Moreover, if we add the $2.6 billion increase in the outstanding volume of savings bonds since January 1961 to the $26.9 billion increase in the portion of the marketable debt

due in five years or more, we get a total of $29.5 billion, well beyond the $28.4 billion rise in the entire public debt over these four years. This is a clear record of noninflationary finance not often recognized by those who like to talk of loose fiscal policies in Washington.

It is noteworthy that these efforts to finance the Government at long-term have been achieved without any noticeable upward pressure on long-term yields. Most long-term interest rates important to private economic activity are now well below the levels touched in 1961: average conventional mortgage rates are currently 5.8%, down nearly 3/8%; offering yields on new high-grade corporate bonds have recently been under 4-1/2%, 1/8% or more below levels of the spring of 1961; and a widely-used municipal bond yield average which was as high as 3.55% in 1961 is currently at 3.10%.

This is an impressive record when one considers the increase of about 1-3/4% in short-term yields that has taken place since the lows of early 1961, as well as the record demand for funds. The volume of funds raised during the past four years totals about $240 billion, nearly 50% higher than

the total of the preceding four years. A major part of the explanation lies, of course, in the high and rising flow of savings for longer-term investment generated out of the steadily rising incomes that have accompanied our prosperity. The smooth flow of these savings into investment has been greatly assisted and encouraged by confidence in continuing price stability and by the increases in interest rates paid by savings institutions and commercial banks.

Clearly, the Treasury's program of noninflationary debt management has been entirely consistent with full availability of credit to private borrowers at stable or declining long-term interest rates.

Importance of Cost-Price Stability

Fiscal incentives and sound financing of the national debt have helped account for the remarkable degree of price stability that has accompanied our vigorous expansion. In contrast, earlier postwar expansions have typically been marred after the initial recovery period, by rapid increases in costs and narrowing profit margins. The bidding up of prices and costs dissipated the forces for expansion; maladjustments and distortions soon developed, and recessionary forces gathered strength.

We have avoided that pattern during the present expansion. The rise in productivity associated with more rapid growth and an expanded scale of investment, along with moderation in wage demands, has caused manufacturing labor costs per unit of output to decline more or less steadily throughout the current expansion. As a result, there has been no squeeze on profit margins and little upward pressure on prices. With costs and prices stable, and productivity rising steadily, we have maintained a good balance throughout the economy and no drastic tightening of money has been necessary to curb overexuberance.

We must not allow the dismal cycle of inflation and recession of the earlier postwar period to reappear. The challenge is clear, for experience shows that the task of maintaining cost-price stability becomes more difficult as expansion whittles away margins of unused plant capacity and selective labor shortages begin to appear. Moreover, some signs of price pressures -- fortunately confined to limited sectors of the economy and in some cases reflecting temporary interruptions in the flow of raw materials from abroad -- were apparent in the closing months of 1964.

These pressures by no means signify that our long period of price stability is ending. They do, however, re-emphasize the need for vigilance.

Our financial policies afford assurance that total demand will remain well within our growing capacity to produce, and we do not face excess demand inflation. But, in addition, we must recognize that -- even at a time when over-all demand is not excessive -- costs and prices may be pushed up by pressures of wage bargaining and the pricing policies of large firms.

The record of labor and industry in recent years in this respect has been good, although we are all aware, I think, that it has not been in every instance as good as it could have been. The price-wage guideposts, endorsed by both President Kennedy and President Johnson, point unambiguously to the responsibilities of both labor and management if key wage settlements and pricing decisions are to serve the public interest. The acceptance by all sectors of our economy of

their continuing responsibility for noninflationary policies is the key to steady expansion at home and a stronger competitive position abroad.

Balance of Payments

Cost-price stability has contributed to a marked improvement in our already favorable balance of trade. Commercial exports, excluding those financed by the Government, rose to $22.4 billion in 1964, an increase of 16% over 1963, and fully 28% over 1960 levels. As a result, our commercial trade surplus widened from 1963's $2.3 billion to an estimated $3.7 billion in 1964, despite the larger demand for imports generated by our rising levels of economic activity.

The 1964 results were, of course, aided by the special grain sales to both Eastern and Western Europe early in the year, and we cannot count on equally favorable over-all trends in 1965. But, there can be little doubt that the relative stability of our own costs and prices since 1958, while most foreign costs and prices have been rising more or less steadily, is at last beginning to count in our favor.

Our improved trade balance has been paralleled by further savings in net Government spending overseas, and by an

unprecedented increase in income from our rising volume of foreign investments. These factors combined to reduce our deficit on regular transactions to an annual rate of about $2 billion over the first three quarters of 1964 -- about in line with earlier expectations despite rising levels of capital outflows.

However, as you know, progress in reducing our deficit for the year as a whole was disappointing. A sharp deterioration during the fourth quarter pushed our deficit on regular transactions up to $3.0 billion for the year as a whole. While some of the fourth quarter results can be traced to temporary factors, analysis of the results for the year made it perfectly clear that new measures needed to be taken to achieve a more rapid reduction in the underlying deficit and to maintain the international strength and stability of the dollar unquestioned.

As a consequence, President Johnson has announced a ten-point program to intensify our effort to reach an early balance. Export promotion will be pressed even harder and the overseas dollar cost of Government programs will be reduced

even further. In addition, legislation will be sought to narrow the gap on tourist expenditure by reducing the duty-free exemption on our returning tourists and our "See the U.S.A." program will be greatly intensified. But, the major thrust of the President's program is in the area of capital movements.

The reason is simple. The bulk of our difficulty can be traced to accelerating outflows of American investment and loan funds to a rapidly growing outside world that desires capital and that apparently is still incapable of mobilizing its own savings with full effectiveness. Since 1960, gains in our trade balance, net savings in our aid and military programs overseas, and rising investment income have benefited our balance of payments by about $3.9 billion. But over that same period, private capital flows abroad increased by about $2-1/2 billion to a record $6.3 billion, washing away most of the gains in other sectors of our accounts.

This huge capital outflow is in one sense a reflection of our basic strength as a nation -- the huge savings we are capable of generating, the steady increase in our holdings of productive and profitable assets abroad, and the world-wide

usefulness of the dollar. But, at this point in time, it is also evident that our balance of payments position cannot afford accelerating outflows of capital at the expense of our international liquidity. Nor can we afford a heavy outflow of the gold that stands behind our pledge to maintain the value of the dollar at $35 an ounce. And just such an outflow is inevitable unless we take the steps that will hold the outflows of capital within our capacity as a nation to finance them.

The success of this program rests on the cooperation of the business and financial communities in a voluntary program to limit the flow of dollars abroad arising from their own operations. Such a voluntary program, designed in the public interest, can be an enormously effective instrument in assisting the early balance in our payments that is so urgently needed. Only last Thursday, the President, together with Secretary Connor Chairman Martin, and I, outlined to a group of distinguished business and financial leaders the nature of this voluntary program. I am sure they will respond to the challenge quickly and effectively

International Financial Cooperation

Early and decisive reductions in our balance of payments deficit are essential not only to protect the dollar, but

also to permit calm and orderly study and appraisal of the most effective approaches toward assuring the adequacy of the international financial system to meet the needs of a growing world. The capacity of the present system to meet short-run strains has been impressively demonstrated -- most recently when sterling came under heavy pressure. The massive credits extended to the British amounted to a collective endorsement -- backed by $3 billion of hard cash -- of existing exchange parities by the major industrial countries. The speed and effectiveness with which these credits could be assembled was a product of the close international financial cooperation built up over recent years.

Meanwhile, we are exploring with other leading nations how best to meet the longer-range needs of the world for international liquidity and for more effective processes of international balance of payments adjustment. These studies are complex and difficult, and it is not surprising that some differences of approach among the major countries are evident at this stage. Certainly, we cannot afford to look back

nostalgically and seek a solution in the rigid mechanism of a pure gold standard -- a mechanism that even in an earlier and simpler day was prone to breakdown and deflation. Instead, the challenge is to build upon the system that has served the world so well over the postwar years -- with full awareness of its problems and shortcomings, to be sure, but also with healthy respect for its resiliency and flexibility in responding to varied and never fully predictable needs.

While this long-run effort is being pressed to a satisfactory conclusion, the planned expansion of IMF resources provides tangible assurance that the financial support needed to facilitate expansion in world trade and payments will be available.

The Executive Directors of the International Monetary Fund have agreed in principle to submit to member governments proposals for a general increase of all quotas by 25%, plus special increases for a relatively small number of countries whose quotas are out of line with their economic importance. Together, these increases, if accepted by the member countries, would total $4.8 billion, and when completed would bring the total

quotas of the Fund up to $20.9 billion, an over-all rise of approximately 30%. The U. S. quota, which would be subject only to the 25% general increase, would rise from the present $4,125 million to $5,160 million. It is expected that legislation providing for this increase will be introduced next month; full provision for it has already been made in the President's budget.

The Fund proposals will provide that 25% of each country's quota increase must be paid in gold. The United States has been prepared at all times to pay this 25% from its own gold holdings, but we had been concerned that such payments by others would lead to large purchases of U. S. gold. I am glad to say that this possibility will be forestalled by measures agreed upon in the Fund. I believe that the understandings that have been reached will fully protect the interests of the United States, the payments system as a whole, the Fund and its other members.

Conclusion

I have touched upon several key challenges for economic policy in 1965 -- maintaining price stability while reducing

unemployment -- achieving a decisive reduction in our balance of payments deficit -- and progress toward a stronger international payments system. Each of these problems we approach from a position of great strength.

Business is moving ahead with good momentum, but without inflationary pressures on supplies or speculative excesses. Our international competitive position is slowly but surely improving, and standing behind the dollar is the world's largest gold stock and a huge volume of foreign assets. The international financial system has withstood a series of shocks and strains, while demonstrating its ability to finance a further large increase in world trade.

Given a continued willingness to use all our tools of economic policy in flexible and imaginative ways -- and with the vital support of industry, labor, and finance -- I am confident that the challenges of today will become the successes of tomorrow.

THE STRUCTURE AND OWNERSHIP OF
THE PUBLIC DEBT
JANUARY 1961 AND JANUARY 1965
(In billions of dollars)

Debt Structure

	January 1961	January 1965	Change
Marketable public debt			
Due within five years	$146.4	$144.7	-$ 1.8
Due after five years	42.9	69.7	+ 26.9
Nonmarketable public debt			
Savings bonds	47.2	49.8	+ 2.6
Special issues and other	53.6	54.4	+ 0.8
Total public debt	$290.2	$318.6	+$28.4

Ownership

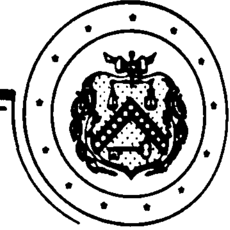
Commercial banks	$ 62.7	$ 62.3p	$- 0.4
Other publicly-held debt*	146.4	160.5p	+14.1
Total publicly-held debt	209.1	222.8	+ 13.7
Government investment accounts	54.6	59.1	+ 4.5
Federal Reserve Banks	26.6	36.7	+ 10.2
Total public debt	$290.2	$318.6	+$28.4

p - Preliminary

* Includes state and local governments, individuals, private investment institutions, corporations, all other private holders.

NOTE: Details may not add to totals shown due to rounding.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 24, 1965

RELEASE ON RECEIPT

TREASURY SECRETARY DILLON NAMES JOHN H. RANDOLPH, JR., AS NEW VIRGINIA STATE CHAIRMAN FOR U. S. SAVINGS BONDS

Secretary of the Treasury Douglas Dillon today appointed John H. Randolph, Jr., Richmond business and civic leader, as volunteer State Chairman for the U. S. Savings Bond program in Virginia.

Mr. Randolph, President of the First Federal Savings & Loan Association of Richmond, succeeds C. Francis Cocke, Chairman of the Board, First National Exchange Bank of Roanoke.

In announcing Mr. Randolph's appointment, Secretary Dillon said: "We feel that the Savings Bonds program is one of the most important activities in which we are engaged. It is not only an essential feature of our debt management program but also serves to encourage individual thrift. The addition of a leader of Mr. Randolph's stature will help us immensely."

Associated with the First Federal Savings & Loan Association since 1955, Mr. Randolph is past president of Richmond Chapter #129, American Savings and Loan Institute; charter president of the Richmond Chapter, Society of Residential Appraisers; past president of the Virginia Savings and Loan League, and a member of the National Thrift Committee Advisory Council and the United States Savings and Loan League's Legislative Committee.

In addition, Mr. Randolph is Director of the Germantown Fire Insurance Co. of Philadelphia, the Southern Title Insurance Corp. the Virginia Industrial Development Corp., the Central Richmond Association, the Better Business Bureau, the Four Seasons Club of Lanexa, Va., and Director and Finance Chairman of the Commonwealth Council, Girl Scouts of America.

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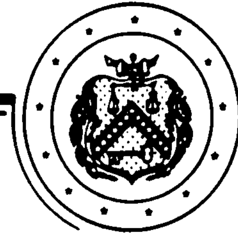
TREASURY DEPARTMENT



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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~~

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 accompanie 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. Thos 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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 4, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 4, 1965. Cash

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,

February 24, 1965

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two serie of Treasury bills to the aggregate amount of $ 2,200,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing March 4, 1965 , in the amou of $ 2,100,511,000 , as follows:

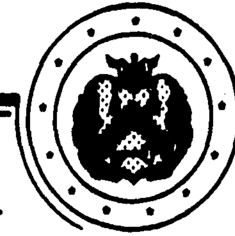
91 -day bills (to maturity date) to be issued March 4, 1965 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated December 3, 1964 , and to mature June 3, 1965 , originally issued in the amount of $ 1,000,051,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 1,000,000,000 , or thereabouts, to be dated March 4, 1965 , and to mature September 2, 1965

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 1, 1965 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 th price offered must be expressed on the basis of 100, with not more than three

rREASURY DEPARTMENT



WASHINGTON, D.C.

February 24, 1965

IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders two series of Treasury bills to the aggregate amount of 200,000,000, or thereabouts, for cash and in exchange for asury bills maturing March 4, 1965, in the amount of ,100,511,000, as follows:

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Banking institutions generally may submit tenders for account of tomers provided the names of the customers are set forth in such ders. Others than banking institutions will not be permitted to mit tenders except for their own account. Tenders will be received hout deposit from incorporated banks and trust companies and from ponsible and recognized dealers in investment securities. Tenders m others must be accompanied by payment of 2 percent of the face unt of Treasury bills applied for, unless the tenders are ompanied by an express guaranty of payment by an incorporated bank ;rust 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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 4, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 4, 1965. 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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The extraordinary depth and range of his talents were nowhere better displayed than in his work with the tax committees of the Congress -- work that was invaluable to the successful passage of the Revenue Act of 1964. His willingness to turn devil's advocate for the benefit of the members of the committees, to turn the full strength of his truly impressive knowledge of taxation against the very proposals he was supporting -- so that the members of Congress could come to an independent judgment -- won the lasting respect of those committees.

Crucial, as well, throughout our tax labors of the past four years was Stanley Surrey's ability to work with the tax bar, with accountants and with industry, to distinguish between real problems and special pleading, and to maintain the respect and good will of all while vigorously pursuing the national interest.

Stanley Surrey has demonstrated the same surpassing excellence in all he has undertaken here at Treasury -- and no one has undertaken more. He has earned the admiration and respect of all who have worked with him. He has served in the best tradition of the Treasury and of the government. It is with the deepest sense of personal gratitude -- and the greatest personal pleasure -- that I present the Alexander Hamilton Award to Stanley Surrey. I will now read the citation:

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
UPON PRESENTING THE ALEXANDER HAMILTON AWARD
TO ASSISTANT SECRETARY OF THE TREASURY
STANLEY S. SURREY
AT THE TREASURY DEPARTMENT
MAIN TREASURY BUILDING
WASHINGTON, D.C.
WEDNESDAY, FEBRUARY 24, 1965, 12:00 P.M., EST

The Alexander Hamilton Award is the highest award the Treasury can bestow on one of its own.

No man deserves that honor more than Stanley Surrey.

I count it one of the greatest rewards of my sixteen years in government that I have known and worked with some of the ablest and most dedicated men in America. I know of none abler or more dedicated than Stanley Surrey.

The four years in which I have worked with Stanley Surrey have been long, crucial and indescribably arduous. It is not the least of his accomplishments that, under intense and unrelenting pressure, he has responded with unfailing grace, energy and brilliance. He has earned my utmost respect for his professional abilities and my very deep personal regard.

During the four years in which Stanley Surrey has served as Assistant Secretary for Tax Policy, this nation did more to improve its tax system -- in terms both of fairness and of economic growth -- than at any other time in our history. That record is the work of no one man -- but no one man can, with greater justice, take pride in that record than Stanley Surrey, who bore the responsibility for fashioning the Administration's tax proposals.

If Stanley Surrey had been less able, less dedicated, less willing and less dogged in his determination to see the job through, we might not have achieved the Revenue Acts of 1962 and 1964 in their present form.

OVER

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CITATION

Alexander Hamilton Award

Stanley S. Surrey

As the chief architect of Administration tax policy, Stanley Surrey has contributed immeasurably to both the domestic and international economic strength of the United States.

The Revenue Act of 1962, the Depreciation Reform of 1962 and the Revenue Act of 1964 comprise the most comprehensive program of income tax reduction and reform in our Nation's history.

Stanley Surrey not only designed the Administration proposals contained in those measures, but through his tireless efforts and his refusal to countenance even the possibility of defeat, he played a crucial role in their successful enactment.

Stanley Surrey has devoted his life to improving our tax laws. No one has a greater knowledge of taxation and all its aspects. No one was better qualified to perform the significant public service that his work over the past four years represents. His unparalleled accomplishments are a fitting tribute to his knowledge, to his ability and to his dedication.

By demonstrating that tax policy could be used to move the country closer to its economic potential, Stanley Surrey has made a lasting contribution to the present and future welfare of the people of the United States.

Douglas Dillon

CITATION

Exceptional Service Award

Robert Carswell

Since August 1, 1962, Robert Carswell has served as Special Assistant to the Secretary of the Treasury. Throughout his service, he has consistently exhibited those qualities that make exceptional accomplishment possible. He has combined a brilliant intellect with a sense of humor and a steady willingness to engage in sheer hard work under sustained and exhausting schedules. He has constantly displayed a rare ability to see extremely complex matters through to completion with remarkable celerity and coupled a unique comprehension of the highest level policy considerations with a close eye to routine detail. He has approached all matters with a talented sense of balance, yet he has considered no matter so routine that it did not merit a sharp look in final review to assure that it was factually accurate and made full sense as a matter of policy. These are all qualities that have made Robert Carswell an outstanding Special Assistant.

In addition, he has taken an important part in the formulation of policy in certain important areas. For example, he played a leading role in the development of the new plans undertaken by the Secret Service to provide improved and more effective protection for the President of the United States following the tragic events of November 22, 1963.

Exposed to the strictest standard of comparison as he worked side by side with top officials in Government on complex matters of domestic and international fiscal and monetary affairs, as well as other difficult issues involving Treasury responsibilities, Robert Carswell clearly proved to be an outstanding and dedicated servant of the Government. His rare abilities and remarkable efforts have been of immeasurable value to the Secretary of the Treasury personally and to the United States Treasury Department.

CITATION

Exceptional Service Award

Dixon Donnelley

As Assistant to the Secretary for Public Affairs for the past four years, Dixon Donnelley has made a unique contribution to this Department and to the economic education of our country. The wide acceptance of enlightened fiscal policies, culminating in the 1964 tax reduction, and of recent international financial initiatives was due in good measure to their careful and clear exposition to the public. His good judgment, his refusal to accept technical obfuscations, his talented editing and his felicitous turn of phrase often made the difference between misinterpretation of an important principle and public understanding.

In achieving this success, Dixon Donnelley's infectious good humor and his kindness of spirit played no small part. For the affection that others hold for him led to efforts well beyond the norm and made possible prodigious production of complex and voluminous material under extreme time pressure.

His record of achievement is proof of his exceptional service to the Department.

Douglas Dillon

CITATION

Exceptional Service Award

Charles A. Sullivan

As Assistant to the Secretary for National Security Affairs for the past four years, Charles A. Sullivan has been instrumental in obtaining a four and one quarter billion dollar improvement in the Nation's balance of payments. This improvement, with the prospect of several additional billion dollars to come, is the aggregate of receipts under military offset and military sales agreements where Mr. Sullivan has been a principal United States negotiator.

Through his close relationships with the Department of Defense and other agencies, Mr. Sullivan has assured a coordinated United States Government effort to achieve substantial purchases of U. S. military equipment by the Federal Republic of Germany, Italy, Austria, Spain, Australia, the United Kingdom and many other countries. The systematic and successful development of this program has been a major contribution to the welfare of the Nation, and Mr. Sullivan's perseverance and imagination -- in long hours of negotiation all over the world -- have been essential to solving the complex and difficult problems involved. This, combined with other sensitive and important duties in the area of national security, assuredly constituted exceptional service to the Department.

Douglas Dillon

CITATION

Exceptional Service Award

Paul A. Volcker

This award is made in recognition of Paul A. Volcker's outstanding service to the Treasury during the past three years. First as Director of the Office of Financial Analysis and now as Deputy Under Secretary for Monetary Affairs, he has made a continuing contribution to the development of important Treasury policies in both the domestic and international financial areas.

It is unusual for one individual to have contributed so effectively to such a broad range of Treasury activity. Paul Volcker has been able to do so because of exceptional ability and a boundless capacity for hard work. He has combined high technical competence in the analysis of economic and financial problems with a keen sense of what is practical in terms of public policy. In addition, he has demonstrated a rare ability to communicate the essentials of Treasury policy with simplicity and force. This has been extremely important in gaining wide public and Congressional support for Treasury programs and policies in the financial area.

Paul Volcker has served in the Treasury with great zeal and energy. He has met, and continues to meet, a demanding schedule with unfailing composure and good humor. Clearly, his performance has been in the highest tradition of the Treasury Department's Exceptional Service Award.

Douglas Dillon

CITATION

Exceptional Service Award

Artemus E. Weatherbee

This award is given in recognition of your major contribution to the accomplishments of the Treasury Department since your appointment in September 1959 as Administrative Assistant Secretary.

Your encyclopedic knowledge of administration and the art of government has supplied an indispensable ingredient to the rapid and successful formulation of new policies, programs and procedures that has occurred in the Treasury Department in recent years. Without your imagination and insight, technical obstacles might have prevailed over substantive results, and vital initiatives might have died. Under your leadership, administration has been a tool of progress and the means for achieving the most effective use of the Department's physical, human and financial resources.

Your record of achievement and the continuity and wisdom you have provided the Department make you a worthy recipient of the Treasury's Exceptional Service Award.

Douglas Dillon

and by his insistence on clarity of thought and expression in all Treasury communications, particularly those with the public and the press.

Mr. Sullivan was cited by the Secretary as instrumental in obtaining a $4-1/4 billion improvement in our balance of payments as a result of military sales and offset agreements with other nations.

The Secretary praised Mr. Volcker for shouldering heavy duties as deputy to the Under Secretary for Monetary Affairs during a period when the latter found it necessary to spend much of his time out of the country. He said that Mr. Volcker "constantly displays an impressive grasp of banking, finance and economic matters and, in addition, a great ability to communicate this knowledge."

In citing Mr. Weatherbee, the Secretary said he "has ably and efficiently continued to improve the management of one of the largest and most diverse of our government departments. In this process he has enabled the department to produce more per dollar expended."

Copies of the citations which accompanied the awards are attache

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 24, 1965

FOR IMMEDIATE RELEASE:

SECRETARY DILLON HONORS
SIX TOP TREASURY OFFICIALS

Treasury Secretary Douglas Dillon at noon today presented the Alexander Hamilton Award to Assistant Secretary Stanley S. Surrey and the Treasury Department's Exceptional Service Award to five of his principal aides for their achievements during the past four years.

Those receiving the Treasury's award for exceptional service were:

Robert Carswell, Special Assistant to the Secretary;

Dixon Donnelley, Assistant to the Secretary for Public Affairs;

Charles A. Sullivan, Assistant to the Secretary for National Security Affairs;

Paul A. Volcker, Deputy Under Secretary for Monetary Affairs;

A. E. Weatherbee, Assistant Secretary for Administration.

In presenting the Alexander Hamilton medal, the Treasury's highest award, to Mr. Surrey, Secretary Dillon credited Mr. Surrey with a major role in the achievement of the Revenue Act of 1964. Secretary Dillon said: "I have known few men in the public service who have brought a more effective combination of dedication and ability to their job." He said Mr. Surrey was a "master craftsman of tax policy."

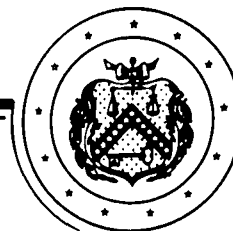
Referring to the five recipients of the Treasury's Exceptional Service Award, Secretary Dillon said that "each uniquely contributed to the achievements of the Treasury over the past four years ..."

He cited Mr. Carswell for his work as his principal assistant on many problems of great complexity and importance to the Treasury and to the nation. The Secretary said his efforts have been "of immeasurable value."

The Secretary called attention to Mr. Donnelley's contribution to the Treasury by his work at many important international conferen

D-1518

TREASURY DEPARTMENT



WASHINGTON, D.C.

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Copies of the citations which accompanied the awards are attached

oOo

CITATION

Alexander Hamilton Award

Stanley S. Surrey

As the chief architect of Administration tax policy, Stanley Surrey has contributed immeasurably to both the domestic and international economic strength of the United States.

The Revenue Act of 1962, the Depreciation Reform of 1962 and the Revenue Act of 1964 comprise the most comprehensive program of income tax reduction and reform in our Nation's history.

Stanley Surrey not only designed the Administration proposals contained in those measures, but through his tireless efforts and his refusal to countenance even the possibility of defeat, he played a crucial role in their successful enactment.

Stanley Surrey has devoted his life to improving our tax laws. No one has a greater knowledge of taxation and all its aspects. No one was better qualified to perform the significant public service that his work over the past four years represents. His unparalleled accomplishments are a fitting tribute to his knowledge, to his ability and to his dedication.

By demonstrating that tax policy could be used to move the country closer to its economic potential, Stanley Surrey has made a lasting contribution to the present and future welfare of the people of the United States.

Douglas Dillon

CITATION

Exceptional Service Award

Robert Carswell

Since August 1, 1962, Robert Carswell has served as Special Assistant to the Secretary of the Treasury. Throughout his service, he has consistently exhibited those qualities that make exceptional accomplishment possible. He has combined a brilliant intellect with a sense of humor and a steady willingness to engage in sheer hard work under sustained and exhausting schedules. He has constantly displayed a rare ability to see extremely complex matters through to completion with remarkable celerity and coupled a unique comprehension of the highest level policy considerations with a close eye to routine detail. He has approached all matters with a talented sense of balance, yet he has considered no matter so routine that it did not merit a sharp look in final review to assure that it was factually accurate and made full sense as a matter of policy. These are all qualities that have made Robert Carswell an outstanding Special Assistant.

In addition, he has taken an important part in the formulation of policy in certain important areas. For example, he played a leading role in the development of the new plans undertaken by the Secret Service to provide improved and more effective protection for the President of the United States following the tragic events of November 22, 1963.

Exposed to the strictest standard of comparison as he worked side by side with top officials in Government on complex matters of domestic and international fiscal and monetary affairs, as well as other difficult issues involving Treasury responsibilities, Robert Carswell clearly proved to be an outstanding and dedicated servant of the Government. His rare abilities and remarkable efforts have been of immeasurable value to the Secretary of the Treasury personally and to the United States Treasury Department.

Douglas Dillon

CITATION

Exceptional Service Award

Dixon Donnelley

As Assistant to the Secretary for Public Affairs for the past four years, Dixon Donnelley has made a unique contribution to this Department and to the economic education of our country. The wide acceptance of enlightened fiscal policies, culminating in the 1964 tax reduction, and of recent international financial initiatives was due in good measure to their careful and clear exposition to the public. His good judgment, his refusal to accept technical obfuscations, his talented editing and his felicitous turn of phrase often made the difference between misinterpretation of an important principle and public understanding.

In achieving this success, Dixon Donnelley's infectious good humor and his kindness of spirit played no small part. For the affection that others hold for him led to efforts well beyond the norm and made possible prodigious production of complex and voluminous material under extreme time pressure.

His record of achievement is proof of his exceptional service to the Department.

Douglas Dillon

CITATION

Exceptional Service Award

Charles A. Sullivan

As Assistant to the Secretary for National Security Affairs for the past four years, Charles A. Sullivan has been instrumental in obtaining a four and one quarter billion dollar improvement in the Nation's balance of payments. This improvement, with the prospect of several additional billion dollars to come, is the aggregate of receipts under military offset and military sales agreements where Mr. Sullivan has been a principal United States negotiator.

Through his close relationships with the Department of Defense and other agencies, Mr. Sullivan has assured a coordinated United States Government effort to achieve substantial purchases of U. S. military equipment by the Federal Republic of Germany, Italy, Austria, Spain, Australia, the United Kingdom and many other countries. The systematic and successful development of this program has been a major contribution to the welfare of the Nation, and Mr. Sullivan's perseverance and imagination -- in long hours of negotiation all over the world -- have been essential to solving the complex and difficult problems involved. This, combined with other sensitive and important duties in the area of national security, assuredly constituted exceptional service to the Department.

Douglas Dillon

CITATION

Exceptional Service Award

Paul A. Volcker

This award is made in recognition of Paul A. Volcker's outstanding service to the Treasury during the past three years. First as Director of the Office of Financial Analysis and now as Deputy Under Secretary for Monetary Affairs, he has made a continuing contribution to the development of important Treasury policies in both the domestic and international financial areas.

It is unusual for one individual to have contributed so effectively to such a broad range of Treasury activity. Paul Volcker has been able to do so because of exceptional ability and a boundless capacity for hard work. He has combined high technical competence in the analysis of economic and financial problems with a keen sense of what is practical in terms of public policy. In addition, he has demonstrated a rare ability to communicate the essentials of Treasury policy with simplicity and force. This has been extremely important in gaining wide public and Congressional support for Treasury programs and policies in the financial area.

Paul Volcker has served in the Treasury with great zeal and energy. He has met, and continues to meet, a demanding schedule with unfailing composure and good humor. Clearly, his performance has been in the highest tradition of the Treasury Department's Exceptional Service Award.

Douglas Dillon

CITATION

Exceptional Service Award

Artemus E. Weatherbee

This award is given in recognition of your major contribution to the accomplishments of the Treasury Department since your appointment in September 1959 as Administrative Assistant Secretary.

Your encyclopedic knowledge of administration and the art of government has supplied an indispensable ingredient to the rapid and successful formulation of new policies, programs and procedures that has occurred in the Treasury Department in recent years. Without your imagination and insight, technical obstacles might have prevailed over substantive results, and vital initiatives might have died. Under your leadership, administration has been a tool of progress and the means for achieving the most effective use of the Department's physical, human and financial resources.

Your record of achievement and the continuity and wisdom you have provided the Department make you a worthy recipient of the Treasury's Exceptional Service Award.

Douglas Dillon

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 26, 1965

FOR RELEASE 12:00 NOON
FRIDAY, FEBRUARY 26, 1965

STATEMENT BY SECRETARY DILLON ON REPORT OF
THE INTERNATIONAL MONETARY FUND

Secretary of the Treasury Douglas Dillon today issued the followin statement on the proposals of the International Monetary Fund to increase the quotas of its members:

"The resolutions submitted to the Governors of the Fund by the Executive Directors authorize an increase in Fund quotas of $4.8 billion. This increase will enable the Fund to play the central role in the international monetary system intended by its founders and desired by its members.

"The United States wholeheartedly supports the Fund report. We particularly welcome those provisions that would minimize the impact of the quota increase on reserve positions, especially those of reserve currency countries.

"Without those provisions, the United States might have lost as much as $800 -- $1,100 million in gold from the proposed quota increases. Instead, these provisions are expected to hold our net loss of gold from sales to other nations for IMF payments to something in the range of $25-$45 million. In addition we expect to use $259 million in gold for our own gold payment to the Fund. This payment, however, will be fully offset by an equivalent income in automatic United States drawing rights on the Fund.

"I am convinced that, at the present stage, these arrangements will benefit not only the United States, but also the Fund itself and its 101 other members.

"As stated in the President's Budget Message, Legislation which would authorize the U. S. Governor to consent to the proposed increases in the quotas of IMF members will be submitted to the Congress in the near future."

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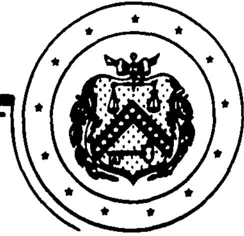
D-1519

TREASURY DEPARTMENT



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CITATION

Meritorious Service Award

Dorothy de Borchgrave

For the last four years Dorothy de Borchgrave has acted as Confidential Assistant to the Secretary of the Treasury coming with him from the Department of State in January 1961. Her knowledge of the methods and procedures of government and her intelligence and foresight have been indispensable to the efficient conduct of business in the Secretary's office. In this manner she has made a notable contribution to the effectiveness of the decision-making process in the Treasury Department which is recognized by this Meritorious Service Award.

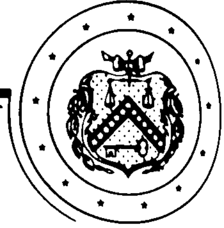
CITATION

Meritorious Service Award

Donald I. Lamont

In two and one half years in the Chief Counsel's Office of the Internal Revenue Service and then for one and a half years as Special Assistant to the Secretary and Director of the Executive Secretariat, Donald I. Lamont has made substantial contributions to the solution of important substantive issues confronting the Department and to the efficient administration of the Office of the Secretary. His thoughtful policy determinations and thoroughness were vital to the issuance of the travel and entertainment regulations under the Revenue Act of 1962. These same qualities combined with personal initiative and long hours have greatly clarified, and insured full staff preparation of, the full range of complex issues coming to the Secretary of the Treasury for decision. Under his leadership the Executive Secretariat has become an important nerve center for the Department. These accomplishments unquestionably constitute meritorious service to the Department and entitle Mr. Lamont to this Award.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 26, 1965

FOR IMMEDIATE RELEASE

DILLON PRESENTS AWARD TO TWO AIDES

Treasury Secretary Douglas Dillon today presented the Treasury Department's Meritorious Service Award to his Confidential Assistant, Mrs. Dorothy de Borchgrave, and to Donald I. Lamont, Special Assistant to the Secretary and Director of the Treasury's Executive Secretariat.

The award is conferred by the Treasury on those who render meritorious service within or beyond their required duties.

Mrs. de Borchgrave, who served with the Secretary when he was U. S. Ambassador to Paris and Under Secretary of State, came to the Treasury with him in 1961. She was cited for her knowledge of methods and procedures of government and her intelligence and foresight, "which have been indispensable to the efficient conduct of business in the Secretary's Office."

Mr. Lamont served two and one half years in the Chief Counsel's office of the Internal Revenue Service before assuming his present duties. He received a Special Service Award from Commissioner Caplin in recognition of his work there. From 1957 to 1961, Mr. Lamont was associated with the legal firm of Ballard, Spahr, Andrews & Ingersoll in Philadelphia.

Secretary Dillon cited Mr. Lamont for "substantial contribution to the solution of important substantive issues confronting the Department and to the efficient administration of the Office of the Secretary," as well as his "thoughtful policy determinations and thoroughness" in carrying out his duties.

The citations for the awards reads as follows:

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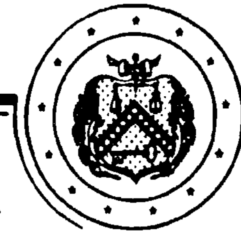

WASHINGTON, D.C.

RELEASE A.M. NEWSPAPERS,
day, March 2, 1965.

March 1, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of sury bills, one series to be an additional issue of the bills dated December 3, , and the other series to be dated March 4, 1965, which were offered on February 24, opened at the Federal Reserve Banks on March 1. Tenders were invited for 00,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, 82-day bills. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing June 3, 1965		:	182-day Treasury bills maturing September 2, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.995 a/	3.976%	:	97.961	4.033%
Low	98.992	3.988%	:	97.958	4.039%
Average	98.993	3.982% 1/	:	97.959	4.038% 1/

a/ Excepting 1 tender of $100,000
52 percent of the amount of 91-day bills bid for at the low price was accepted
37 percent of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 19,223,000	$ 16,123,000	:	$ 47,975,000	$ 7,363,000
New York	1,620,428,000	827,302,000	:	1,633,284,000	775,426,000
Philadelphia	25,794,000	15,820,000	:	17,323,000	4,194,000
Cleveland	32,888,000	27,869,000	:	51,873,000	35,940,000
Richmond	11,752,000	11,488,000	:	10,438,000	3,582,000
Atlanta	43,520,000	27,989,000	:	25,590,000	13,716,000
Chicago	317,861,000	135,395,000	:	244,656,000	55,787,000
St. Louis	36,645,000	23,331,000	:	13,309,000	7,054,000
Minneapolis	21,180,000	13,864,000	:	8,071,000	4,071,000
Kansas City	30,177,000	20,361,000	:	16,779,000	8,079,000
Dallas	27,721,000	15,625,000	:	10,186,000	5,186,000
San Francisco	171,433,000	64,844,000	:	223,781,000	79,636,000
TOTALS	$2,358,622,000	$1,200,011,000 b/		$2,303,265,000	$1,000,034,000 c/

Includes $238,019,000 noncompetitive tenders accepted at the average price of 98.993
Includes $94,505,000 noncompetitive tenders accepted at the average price of 97.959
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 4.08%, for the 91-day bills, and 4.18%, 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 semi-annual compounding if more than one coupon period is involved.

D-1520

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 2, 1965

FOR RELEASE A.M. NEWSPAPERS
WEDNESDAY, MARCH 3, 1965:

UNITED STATES AND FRANCE TO DISCUSS
REVISION OF INCOME TAX TREATY

Representatives of the United States and of France will meet this spring in Washington to begin revision of the income tax treaty between the two countries, the Treasury announced today.

An income tax treaty is essentially an agreement between two countries to avoid double taxation of income earned in one country by a citizen of the other.

Since the existing tax treaty with France was negotiated in 1939, and is one of the oldest tax treaties with the United States now in force, the revision is expected to be extensive.

Both France and the United States are members of the Organization for Economic Cooperation and Development; hence, the OECD "Draft Double Taxation Convention" published in 1963 will be considered in the negotiations. Those who are interested in the new treaty may wish to consult the OECD draft as well as the treaty recently concluded between the United States and Luxembourg, which is also an OECD member. The treaty is No. 5726 in "Treaties and Other International Acts Series", published by the Department of State.

The negotiations will encompass a number of specific problems which had evolved out of the many changes in the tax law of both countries since 1939. Income of professional people, entertainers, investors, employees of foreign corporations, and withholding on such income will be discussed. In addition, new rules will be developed for taxing income of citizens of one country who maintain permanent business connections in the other country.

Comments or suggestions on the treaty should be submitted by April 1, 1965, to Assistant Secretary of the Treasury Stanley S. Surrey, Treasury Department, Washington, D. C.

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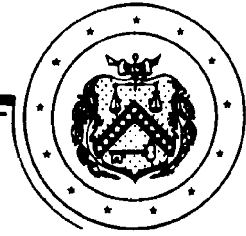
D-1521

TREASURY DEPARTMENT



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D-1521

BETA MODIFIED

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 11, ~~(16)~~ 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 11, 1965 ~~(17)~~. Cash

~~Exhibit 2-A~~

~~BETA - MODIFIED~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 3, 1965

(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 $ 2,200,000,000 (2), or thereabouts, for cash and in exchange for Treasury bills maturing March 11, 1965 (3), in the amount of $ 2,201,839,000 (4), as follows:

91 (5) -day bills (to maturity date) to be issued March 11, 1965 (6), in the amount of $ 1,200,000,000 (7), or thereabouts, representing an additional amount of bills dated December 10, 1964 (8), and to mature June 10, 1965 (9), originally issued in the amount of $ 1,000,578,000 (10), the additional and original bills to be freely interchangeable.

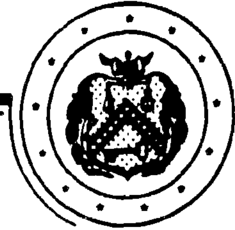
182 (11) -day bills, for $ 1,000,000,000 (12), or thereabouts, to be dated March 11, 1965 (13), and to mature September 9, 1965 (14).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 8, 1965 (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-1522

TREASURY DEPARTMENT



WASHINGTON, D.C.
March 3, 1965

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-1522

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 11, 1965 in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 11, 1965. 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.

March 3, 1965

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
OFFICE MACHINE SPOOLS

On February 15, 1965, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(a) of the Customs Regulations that all shipments of office machine spools imported from West Germany, manufactured by Regentrop & Bernard, Wuppertal, Germany, are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Information was received from sources within the Customs Service.

An "Antidumping Proceeding Notice" to this effect is being published in the Federal Register pursuant to section 14.6(d)(1)(i) of the Customs Regulations.

The dollar value of imports received during the period July 1 through November 30, 1964, was approximately $50,000.

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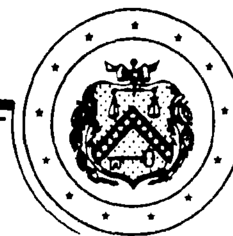
TREASURY DEPARTMENT



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The present law has worked smoothly and effectively. It has passed the test of more than two years of application as an important instrument in our kit of tools to meet our international responsibilities. I urge early approval of the bill before you, H.R. 5306.

oOo

At the same time, I should emphasize that our domestic interest rate structure will remain unaffected by this legislation. Significant as these balances are from an international viewpoint, they are of small consequence in the over-all management of our domestic banking system where the money supply plus time deposits amounts to over $280 billion. In this connection, competition for these international balances is confined to relatively few banks, mostly large and strong institutions in financial centers.

There is no doubt that investment in time deposits in the U.S. has been found quite attractive by foreign official institutions. In the first two years, following enactment of P.L. 87-827, we have seen time deposits of foreign official institutions -- those covered by the law -- rise approximately 86 percent or an estimated $1.8 billion to $3.8 billion at reporting member banks. This is approximately equal to the entire rise in foreign official holdings of short-term dollar assets of all types in the same period. It is clear that there could be a considerable and unnecessary loss of some of these deposits if the present law is not extended and our banks are not left in a position to compete effectively internationally. Failure to act would make the management of our balance-of-payments deficit more difficult and increase the pulls on our gold.

Foreign monetary authorities now hold, in various forms of short term dollar claims, approximately $13.4 billion. The decision as to whether they hold dollars, gold or other reserves is influenced by many considerations other than interest rates, the most important of which is the fundamental soundness of the dollar. Our major task is, of course, to insure that their confidence in the dollar continues to be justified. However, one factor contributing to the desirability of any investment is the interest rate.

It is the purpose of this bill to permit commercial banks continued flexibility in competing in this area. While our banks have and will continue to supplement a reasonable return to foreign monetary authorities with an attractive variety of services and facilities, this flexibility will assist our banks in their effort to attract foreign official deposits here and to retain them.

The authority of this legislation is, of course, only permissive. It does not compel higher rates of interest to be paid. In fact, the rate paid will obviously be determined by the profitability to the individual bank entering into the contract; but it is not in our national interest to place a constrictive ceiling on banks' judgement in this area.

is in terms of interest that may be paid, rather than in terms of deposits accepted at the higher rates of interest, its potential is diminished with each passing day. As a result there is no potential benefit to be derived from the existing law for deposits of more than seven months and with the passage of time, increasingly shorter maturities become affected.

I should make clear that the continuation of the exemption from the Regulation "Q" ceilings in the proposal before you would, as in the present law, apply only to a limited class of time deposits -- "foreign governments, monetary or financial authorities of foreign governments when acting as such, and international financial institutions of which the United States is a member." These are the entities which the U.S. recognizes as entitled to carry out monetary gold purchases from the United States. The present legislation and the present proposal are designed to permit us to meet more effectively our international responsibilities by increasing the opportuniti for competitive commercial banking to provide helpful support to the dollar in its role as an international reserve currency. By permitting banks to pay interest on this limited class of deposits at more internationally competitive rates, the attractiveness of holding dollars is increased and pressure on our gold stock is reduced.

STATEMENT OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
HOUSE BANKING AND CURRENCY COMMITTEE
H. R. 5306
10:00 A.M. March 4, 1965

Mr. Chairman:

I welcome the opportunity to appear before this Committee in support of H.R. 5306.

This bill would extend without time limitation the exemption from the regulatory ceilings of the interest rate that commercial banks may pay on time deposits of foreign governments and monetary authorities and certain international institutions.

The present law, P. L. 87-827, which was approved on October 15, 1962, provided this authority for a three-year period. Its enactment was in accordance with the Administration's overall balance of payments program.

We have now had over two years of experience with the law and its usefulness has been demonstrated. I, therefore, come before you to urge that the termination date of this legislation be removed.

Early action on the bill is desirable. The law as it now stands expires October 15 of this year. However, its benefits have already been impaired as a result of the approach of the expiration date. Because the expiration date

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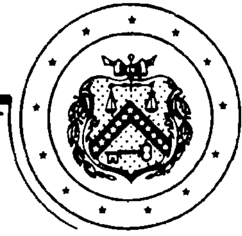

WASHINGTON, D.C.
March 5, 1965

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS FOR FOURTH QUARTER OF 1964

During the fourth quarter of 1964, the net sale of monetary gold by the United States amounted to $144.7 million. In the first quarter of the year, there was a net sale of $27.5 million, while in the second and third quarters, there were net purchases of $95.0 million and $41.0 million, respectively.

These transactions brought to $36.2 million the net sale of monetary gold for the year as a whole.

The Treasury's quarterly report, made public today, summarizes monetary gold transactions with foreign governments, central banks and international institutions for Calendar 1964 by quarters (table on reverse side).

In addition to these net monetary sales of $36.2 million worth of gold to foreign entities, the U.S. had net domestic sales of $89 million worth of gold for industrial, professional and artistic uses. Thus, the total decrease in U.S. gold stock during Calendar 1964 was $125 million.

(OVER)

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH

FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

January 1, 1964 - December 31, 1964

(In millions of dollars at $35 per fine troy ounce)

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

	First Quarter 1964	Second Quarter 1964	Third Quarter 1964	Fourth Quarter 1964	Calen Yea 196
Austria	-32.1	-23.2	--	--	-55
Belgium	--	--	--	-40.1	-40
Brazil	-1.0	+28.1	-1.1	+28.2	+54
Chile	--	--	-1.0	-1.3	-2
Colombia	--	--	+10.0	*	+10
Congo(Leopoldville)	--	--	--	+1.6	+1
Dominican Republic	--	-2.5	-.1	*	-2
Egypt	-.7	-8.4	-.8	-.9	-10
Finland	-5.0	--	--	--	-5
France	-101.3	-101.3	-101.3	-101.3	-405
Germany	-200.0	--	-25.0	--	-225
Israel	-2.0	--	--	--	-2
Italy	+200.0	--	--	--	+200
Lebanon	--	--	--	-10.5	-10
Netherlands	--	--	--	-60.0	-60
Philippines	+9.9	-.1	-.1	+9.9	+19
Salvador	-2.2	--	--	--	-2
Spain	--	-2.0	--	-30.0	-32
Surinam	+2.5	--	--	--	+2
Switzerland	--	-30.0	--	-51.0	-81
Syria	-2.7	-.1	-.1	-.2	-3
Turkey	-1.2	+15.0	--	-12.5	+1
U. K.	+109.3	+220.9	+162.5	+125.0	+617
Yugoslavia	-.6	-.7	-.6	-.6	-2
All Other	-.4	-.7	-1.3	-1.0	-3
Total	-27.5	+95.0	+41.0	-144.7	-36

Figures may not add to totals because of rounding.

* Less than $50,000

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE TAX EXECUTIVES INSTITUTE
SHOREHAM HOTEL, WASHINGTON, D.C.
6:30 P.M. EST, SUNDAY, MARCH 7, 1965

THE FUNCTIONS OF TAX POLICY

Tax policy has three basic functions.

First, it should produce revenue for the operations of government.

Second, it should raise this revenue in as fair and simple a way as possible.

Third, tax policy should be responsive to the economic and social goals of the society in which it operates.

During the past four years we have seen changes in tax policy which in magnitude and significance have seldom been equalled. I would like to discuss some of those changes, as well as some of the changes now proposed, and some that might possibly by proposed in the future, in the light of the three functions of tax policy that I have mentioned.

The First Function: Raising Revenue

In terms of the first function -- producing revenue -- the Revenue Act of 1964 disposed of the notion that to raise revenue you always have to raise tax rates and that to lower tax rates is always to lower tax revenue. That Act recognized instead that, by drawing too much money out of the private sector of our economy, excessively high tax rates can retard our economic growth and thus operate not to increase but to reduce tax revenue. By lowering rates that Act left more funds in the private sector -- for both investment and consumption -- and increased incentives to invest, thereby raising our level of economic activity and, in turn, increasing tax yields.

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I think most economists agree that without the Revenue Act of 1964 there is a good chance that today the United States wou be in the midst of the fifth economic recession since the end of World War II. Apart from the economic hardships, misery and waste which any recession involves, we would also have a substantial drop in tax revenue, perhaps as much as several billior dollars.

Tax policy is thus now more clearly seen as an important part of over-all economic policy, and it is impossible to consic tax measures without at the same time considering the way in which changes in tax policy will affect economic growth and the functioning of our free enterprise system.

Before we consider the relation of tax policy to our national economic goals, however, it is appropriate to consider tax simplicity and equity.

The Second Function: Tax Equity and Simplicity

In terms of the second function of tax policy -- raising revenue in as fair and simple a manner as possible -- we have seen much happen in recent years. The amount of tax reform contained in the Revenue Acts of 1962 and 1964 cannot fail to impress anyone who takes the trouble to look at the record.

It is true that many reforms which gained tax revenue were offset by other equally desirable reforms which lost tax revenue This, of course, does not in the least reduce the importance of the total amount of structural revision, although a hasty glance at the net revenue impact could lead some to assume that the amount of revision achieved had been slight.

But we are all aware that more work lies ahead if we are to keep on improving our tax system. One of the most important areas to explore in considering future tax revision is the propo by Senator Long of Louisiana to establish an alternate and lower tax rate schedule at middle and upper income levels in lieu of many deductions, credits and other preferences now available.

Senator Long's plan also provides for an increase in the minimum standard deduction as well as a doubling of the maximum standard deduction. These changes, combined with the alternate tax schedule for middle and upper income taxpayers, would allow many taxpayers at lower and middle income levels to shift from the ranks of itemizers to the ranks of those taking the standard deductions, and would allow higher income taxpayers to use the alternate tax schedule rather than to compute taxable income with the great variety of special provisions now present in the law.

I understand it is Senator Long's view that the farther down into the middle and lower income ranges such an alternate schedule could be extended the better in the interests of both horizontal equity and simplicity. In fact, in those brackets the liberalization of the standard deduction could be seen as one way of moving in that direction. This is in keeping with the viewpoint that the benefits of changes of these types must be appropriately balanced among taxpayers at different income levels. Also, of course, such a plan would be self-defeating if it were embroidered with exceptions at variance with its basic concepts.

While I think Senator Long's proposal requires further study, it does seem to offer one possible path to the lessening of existing inequities in our tax system at all levels of income. Certainly the data and analysis required for that study will help us to achieve desired improvements in our tax structure.

Furthermore, as Senator Long points out, as more taxpayers are able to adopt the standard deduction or an alternative schedule approach, the simpler the task of filing an income tax return would become. Anything we can reasonably do to make our tax system simpler certainly deserves close attention. When we can combine simplicity and equity, and do so in a manner which does not interfere with raising revenue, or with furthering our national economic and social goals, we should make every effort to do so.

The problem of increasing tax simplicity is one of the most challenging in the field of tax policy. I am sure that to a non-expert there are many places in our tax structure which offer

opportunity for wholesale revision to achieve greater simplicity. Yet, the more one learns about our tax structure, the more difficult such changes really become.

The reason is that our tax structure directly affects so many facets of both our economy and our society. Hence changes which might appear relatively easy or minor in themselves may involve far more significant effects as our economy and our society adjust to them. Our task is to search for the areas where simplicity can be obtained, leaving for more complex solutions those problems whose very nature demands more detailed answers.

The Third Function: Furthering National Economic and Social Goals

In terms of the third function of tax policy -- furthering national economic and social goals -- we have seen more progress in recent years than ever before. We are enjoying the continued benefits of the longest and strongest peacetime economic expansion in our history -- one which is entering its fifth year this month.

What that means is that more than a million people are working today who would not have jobs if it were not for the Revenue Act of 1964. Certainly, there is no more vital goal -- both social and economic -- than full employment.

As we move forward toward the Great Society, tax policy will continue to be looked to as a means to move toward the goals of that society, social as well as economic.

The most important way in which tax policy can contribute to those goals is by maintaining healthy and balanced economic growth. Only through such growth will our economy provide the tax revenues we will need to reduce poverty, to meet our educational needs, to develop our communities, to improve national health, and to make our country a more beautiful place in which to live.

I have no doubt that tax policy can play a strong and constructive role in moving toward these goals. It can only do so, however, if it is used wisely.

It has long been the custom in this country for anyone considering any new social or other program to begin by suggesting that we encourage such a program through special tax benefits. Unfortunately, the history of special tax treatment for this or that specific non-tax purpose seldom bears out the hopes put forth when the special rule was first written into law. Far too often today's tax incentive to achieve some specific non-tax objective -- usually an objective that few of us would quarrel with -- turns into tomorrow's loophole, through which drains vital revenue that could have been used far more effectively to attack the problem directly.

For example, a blanket tax credit for college tuition payments, no matter how attractive it may be to those who have to meet those payments, is hardly the way to meet our educational needs. It is clearly no substitute for President Johnson's student assistance program, which is designed to make college education available to all Americans on the basis of their ability to learn rather than their ability to pay. In fact, a tax credit for tuition expenses -- costing us a billion dollars -- could actually slow up rather than hasten our progress in education by giving benefits to those who have no real need for help, thus wasting tax revenue which instead could be used directly to finance a constructive program of aid to those students who most need it. And since, as most educators realize, the tuition credits would quickly be reflected in higher tuition charges, the needy students would be that much further from their goals. I believe it can be said that such a tax credit would not result in even a single additional student going to college because of its enactment.

The test, then, of any special tax proposal designed to further a specific and desirable social goal should be whether or not it is possible to achieve that goal more efficiently, directly, and fairly through other measures which lie outside the realm of the tax system.

Probably the most urgent social goal facing our nation today is embodied in President Johnson's war on poverty. Certainly no one can say that tax policy does not have a constructive role to play in this war. The Revenue Act of 1964 had an

average individual income tax cut of about 20 percent -- but that cut for very low income taxpayers averaged roughly twice that percentage, as a result mainly of the splitting of the first bracket and the adoption of the minimum standard deduction. These were tax measures broadly applied whose purposes, of course, could not be met by devices outside the tax system. The minimum standard deduction in particular is a fine illustration of a tax device designed specifically to aid low income taxpayers, including those with family responsibilities. Unlike a blanket tax credit or even increased personal exemptions, the benefits from the minimum standard deduction go directly to those taxpayers who most need help -- and only to them.

Any future tax proposal intended to aid low income groups should be designed to assure that it provides benefits in the most direct and effective manner possible.

As for the use of tax policy to further our economic goals, the Revenue Act of 1964 reduces both individual and corporate income taxes this year by almost $14 billion. But this is far from the whole story.

The Revenue Act of 1962 had as its central provision a 7 percent investment tax credit. The purpose of this credit was to encourage business to modernize productive equipment. That same year, the Treasury acted to bring the tax treatment of depreciation up-to-date for the first time in almost twenty years. That change, too, was designed to encourage modernization. The three changes -- investment credit, depreciation reform, and significant tax reduction -- were designed to work together, for their interaction was seen as mutually reinforcing. The present success of these measures now operating together bears out this view.

But tax measures require constant review. As most of you know, the tax benefit from the depreciation reform of 1962 would have been reduced by some $700 million this year if it were not for the changes in the Guideline Procedure and reserve ratio test recently announced by President Johnson. That would have meant that the incentive to modernize embodied in the depreciation reform would have been substantially weakened.

What many people do not realize is that the incentive would also have been weakened if we had abandoned the reserve ratio test altogether. Allowing taxpayers to use the new guideline lives provided in the 1962 reform without requiring that they bring their actual replacement practice into line, would be to distribute the benefits of this reform indiscriminately among those who modernized and those who did not. Indeed, the greatest benefits would have gone to those who modernized the least or not at all.

The changes the President announced will ease the transition to the new guidelines for those firms which require a longer time span, while at the same time assuring that the tax benefits provided correspond to actual progress made towards modernization. While these changes involve foregoing some $700 million in revenue this year, they are entirely in keeping with the belief of this Administration that business must remain strong and growing if we are to maintain a healthy economy.

As for the future use of tax policy to further economic goals, I think there is no question that the excise tax reduction of $1.75 billion a year, which President Johnson has proposed, is not only an improvement in our over-all tax structure but also another step toward strengthening our economy. It offers us a splendid opportunity to rationalize our excise tax system, by striking directly at the haphazard jumble of manufacturers' taxes, retailers' taxes and other measures that years of tax history have brought about. Although this jumble is often referred to as a "selective" excise tax system -- no one today defends the bases for the selection.

Another major economic goal in the United States is improvement in our nation's balance of payments. The business community has a very significant role to play in this task, as President Johnson made clear last month. Tax policy plays an important role here as well. The Interest Equalization Tax, for instance, is a good example of how tax policy can be refined and developed to meet a very difficult economic problem. The success of the Interest Equalization Tax in bringing foreign borrowing in the United States down to reasonable proportions in the areas to which the tax applied is impressive testimony to the value of tax policy in furthering our international as well as national economic goals.

The proposed legislation to increase foreign investment in the United States -- which will soon be submitted to the Congress as part of President Johnson's Balance of Payments program -- is an example of another constructive use of tax policy in harmony with our international economic goals.

To return to the domestic scene, one way in which we could make tax policy an even more potent instrument for advancing our economic goals would be to insure that the Federal Government could use, when appropriate, the weapon of quick reduction of tax rates on a temporary basis to forestall the possibility of a recession and slowdown in economic expansion. While the details of the Congressional procedure would have to be determined by the Congress, it is clear that the certainty of prompt Congressional action on a Presidential request for a temporary individual income tax rate cut would go far toward increasing our ability to cope effectively with an economic slowdown. We must at the same time continue our analysis of economic changes so that our economic forecasting operates as precisely as possible in this difficult area.

Still another needed tax policy step -- one that can be said to lie in both the social and economic area -- is the proposal for changes in the tax law growing out of the Treasury Department study of private foundations. These changes will eliminate the abuses that study uncovered among a minority of those foundations, and will also end the present mixing of foundations and business, which today permits some business enterprises to gain an unfair advantage over competitors. Chairman Mills of the House Ways and Means Committee has stated that this will be an appropriate area for early tax action, and few will disagree with him.

A problem of tax administration which has important tax policy implications is now being looked into by the tax staffs of the Congress and the Treasury. I refer to the possibility of introducing a system of graduated withholding on salaries and wages.

New attention has been focused on our withholding system by the discussion regarding the effect on underwithholding resulting from the Revenue Act of 1964. It would be helpful to spend a moment on this latter aspect. The actual 1964 underwithholding resulting from this legislation both in individual

and over-all economic impact -- contrary to popular suspicion -- was relatively quite minor.

In fact, the increase in underwithholding resulting from the new law in 1964 could not even reach $100 for a single person earning $10,000 a year, or $150 for a married couple with two children and an income of $20,000 a year. Moreover, in both of those situations the taxpayers should be filing quarterly returns of estimated tax. For the single person earning $5,000 and the married couple with a $10,000 income, the levels at which quarterly estimates commence, the possible increases are $51 and $83.

The minor effect on withholding of the 1964 Act does not mean, however, that there will not be situations involving larger amounts of underwithholding in 1964. Usually every year about 20 million returns involve taxes due -- more than $5 billion -- and about half of these tax payments are the result of underwithholding. The total amount due this spring will be slightly less than last year as a result of the 1964 Act rate changes.

In past years underwithholding has been normally produced by such things as rising personal income through pay raises or more overtime or employment for a longer period than usual, or a change in exemption status in the latter part of the year (as where a son or daughter ceases to be in a dependent status). There have been instances in recent years where final payments increased by almost a billion dollars from one year to the next. The year 1965 will not differ much from prior years, but because a small part of the 1964 underwithholding and payments due in 1965 has resulted from the 1964 Revenue Act there is a natural tendency for some taxpayers to blame the new law for their entire tax bill.

All this has led tax experts and others to consider whether this perennial problem of underwithholding cannot be reduced by introducing graduated withholding rates -- using more than one withholding rate so that the total withholding would more closely reflect tax liabilities. Such a graduated system would start with a rate lower than the present flat 14 percent rate. This combination of a lower starting rate followed by a number of higher rates would substantially reduce both the present

underwithholding in the brackets for which 14 percent is too low a rate, and the present overwithholding in the lowest brackets where 14 percent is too high a rate.

As in any tax proposal, there are a number of factors in a graduated withholding system which require study. For example, one is the technique itself, and here the preliminary exploration seems favorable. Another is the method of transition to the new system. The magnitudes involved -- the increase in current withholding and consequent withdrawal of funds from the consumer spending stream -- are such that their effect on the economic situation must be carefully considered in planning the transition to avoid interference with our economic expansion. Also, a graduated withholding system, while reducing underwithholding in many brackets and overwithholding in the lowest brackets, could also lead to an increase in the present amount of overwithholding.

This last aspect really requires us to take a hard look at our present overwithholding. It now runs to about $5 billion a year and involves some 40 million returns. About 40 percent of this overwithholding appears to be due to the fact that our present withholding system is geared to the standard deduction, while many taxpayers of course use itemized deductions, so that their actual tax liabilities are less than the amounts withheld. Intermittent employment, which means that the year's withholdings will not reflect the total personal exemption, apparently accounts for about 15 percent of the overwithholding. Interestingly enough, almost a third of the overwithholding seems to be voluntary, for many taxpayers do not claim their full personal exemptions for withholding purposes.

All of this raises many questions, some economic, some social or psychological, and some technical. Thus, is it harmful to the economy to draw each year some $5 billion or so out of the economy over the course of the year only to refund this amount in lump-sum payments in the following spring -- what does all this mean for consumer spending, for individual savings? Are there techniques available by which the withholding system could be adjusted to reduce this overwithholding, without seriously affecting payroll accounting and without causing taxpayers to fall back into underwithholding situations? We have never really given much thought in the past to these questions, and the current discussion of graduated withholding provides an opportunity to explore them.

Some reduction in overwithholding, if adequate techniques are available to permit it, might be an important improvement. Certainly reducing underwithholding would be.

Conclusion

We have come a long way lately in improving our tax system, but we still have a long way to go. We know that changes in tax policy occur in a rapidly changing climate. We know that the economic effects of tax rates and tax systems change over time, as the economy expands and as incomes increase. We know that constant attention is necessary to assure that tax policy makes a maximum contribution to national goals both social and economic. We know that necessary changes in tax policy cannot always be accompanied by increases in tax simplicity. We know that substantial progress in furthering tax equity requires broad public support.

The task for the future is to apply at least the knowledge we have, as we go on to learn still more about our complex tax system. The task is to be sure that every change we make is a step toward making our tax policy serve more effectively a society that becomes daily more complex -- a society that is contantly changing.

Merely because one tax cut was good does not mean that every tax cut will be better, nor does it mean that tax cuts are always the best way to achieve our national objectives. For both expenditure policy and tax policy must be closely coordinated, as they are in President Johnson's budget for the next fiscal year. This budget imposes expenditure reductions wherever possible, as well as increased expenditure programs where necessary -- as in the poverty, education and health programs. It is a budget which allows us to save where we can in order to spend where we must.

Together with this wise control of expenditures there is a corresponding wisdom in the use of tax policy -- by proposing an excise tax reduction that is both sound as a tax measure and prudent as a fiscal policy.

And this is really the new approach in tax policy -- the use of tax policy as an integrated part of economic and fiscal planning, to give the maximum possible support to our economy, so that we can continue to make progress toward the Great Society.

FOR RELEASE: ON DELIVERY

REMARKS BY LAWRENCE M. STONE
TAX LEGISLATIVE COUNSEL
U. S. TREASURY DEPARTMENT
BEFORE THE TAX EXECUTIVES INSTITUTE
SHOREHAM HOTEL, WASHINGTON, D. C.
MONDAY, MARCH 8, 1965, 9:30 A.M., EST.

Recent Developments in Depreciable Property Accounting

There have been a number of important changes in tax policy in the last few years which affect tax depreciation. I intend to outline them and give some of the reasons why they were made. In view of the fact that one of the most important of these was contained in the recent Treasury Department release on the 1962 Depreciation reform, this is an appropriate time to review these changes.

Investment credit

The investment credit introduced in 1962 has been well received. Corporate income tax liabilities for 1962 were reduced by over $800 million. The beneficial effect on the economy has been widely recognized. Practically all of the regulations have been issued in either final or proposed form. The proposed recapture rules contain many procedures which should go a long way in easing administrative requirements. In particular the procedure for handling "mass assets" seems to be a satisfactory solution to a problem many thought was insurmountable.

The nonapplicability of the recapture rules on sales and leasebacks of property on which a credit has been claimed is another helpful measure contained in the proposed recapture regulations.

The consolidated return regulations are being revised and consideration is being given to easing the investment credit recapture provisions on sales of property from one affiliate to another.

Depreciation (other than guidelines)

The "Cohn Rule" (Rev. Rul. 62-92) denies depreciation in the year-of-sale on an asset sold at a gain. This controversy may be resolved soon since the Supreme Court has agreed to review the Fribourg Navigation case.

In the recent extensive study of the depreciation guidelines, it was noted the sum of the years-digits (SYD) remaining life method of depreciating open-end, multiple asset accounts was not functioning according to assumptions. The remaining life plan is very complex -- it requires the maintenance of hypothetical straight-line records as well as SYD records. It may be that straight-line data are not utilized properly in the computations or it may be that straight-line data are inappropriate for the computations of depreciation. The Service is restudying the technique now permitted in the regulations but this should not be a surprise to many tax experts. When the SYD method was introduced in 1954, depreciation experts had serious reservatio regarding the use of the SYD method for multiple asset accounts.

The Depreciation Guidelines

Our system of income taxation essentially is based on net income determined under generally accepted accounting principles. Depreciation is an expense of doing business that must be taken into account in ascertaining corporate earnings. The determination of a reasonable annual allowance for purposes of calculating earnings per share frequently is very difficult. Your controllers and auditors can attest to that. Those of you who are regulated by utility commissions and other agencies are aware of the difficulties that depreciation controversies can cause in rate making hearings. These problems began before the corporate income tax and will remain even if the corporate tax were abolished.

As in the cases of financial accounting and utility regulation, the history of tax depreciation policy is equally involved.

A long and an important phase of that history might be termed the "Bulletin F" approach, when rather strong claims were made that the Treasury Department and the Internal Revenue Service were restrictive in the way in which they required taxpayers to employ the straight-line write-off method.

That was changed in 1954 with the adoption of accelerated methods of depreciation. But Bulletin F remained -- with its countless lives for different assets and with the claim by the business community that those lives were unrealistic and outmoded.

The general impression voiced by many in business was that unrealistic depreciable lives were holding up modernization. It is quite interesting in retrospect to go back to the hearings on the Revenue Act of 1962 and read the testimony of the business community on depreciation. The constant theme is that of linking a realistic depreciation program with the task of modernizing the machinery and equipment utilized by American business. The stress was always on modernization and not simply on expansion.

Against this background the Treasury developed its 1962 depreciation reform.

The 1962 revision made these major changes: it reduced Bulletin F to 75 broad guideline classes; it established forward looking lives; it instituted an objective control -- in the form of the reserve ratio test -- to eliminate agent controversy; and it provided an adjustment period in the form of a three-year moratorium. At that time the Treasury recognized that the new procedure would have to be carefully observed and improvement and corrections made if necessary.

It was clear in 1964 that problems existed. Business was using the guideline procedure to the extent that we anticipated. But it was obvious that many businesses would not be able to meet the reserve ratio test within the three year moratorium period. The Treasury therefore started an extensive study -- to learn the reasons for the failures and to find out in general how the guideline procedure was operating. The study showed that difficulties existed -- in the reserve ratio mechanics, in the transition arrangement, in the lengthening adjustment procedures, and in the ways some accounting methods were being utilized in conjunction with the guideline procedure.

In response to these problems, the general business request was for an additional one year blanket moratorium. The more we studied the matter the more we came to see that this was only a rough and incomplete measure, which would do little more than postpone the problem. What was needed -- and what we provided -- was a far more basic and longer-range solution.

There were four substantial revisions:

1. Defects in the reserve ratio test principally attributable to irregular growth have been overcome with the introduction of the guideline form. This technique enables a taxpayer to make calculations tailored to his own growth pattern. At the same time, the 20 percent leeway inherent in the tables has been retained. Also the use of the tables remains available as an option because they may be helpful when growth is concentrated in recent years.

2. Certain calculation techniques -- straight-line or sum-of-the-years digits method with multiple asset open-end accounts -- provided exaggerated benefits when used in conjunction with the guideline procedure, a fact which came to light in our study of depreciation prior to the recent changes. These exaggerated benefits were sending some reserve ratios sky-high. There was a substantial amount of switching from declining balance methods or item accounting to these methods, switches that never would have occurred except in this setting of the possibility of exaggerated benefits. This accounting situation operated to discourage modernization and replacement since it placed a high premium value on the retention of old assets. That was why the Treasury adopted the accounting constraints recently announced.

3. With regard to the adjustment period, three years was found to be too short a time -- particularly for heavy industry. To alleviate this condition, the Treasury adopted a long-range solution rather than a temporary one-or-two year moratorium. It thus used a guideline life -- a full life cycle -- as the basis for the transition period and then adopted a tapering down process so that the change-overs required could be made gradually.

4. The last measure included in the recent changes covered the adjustment procedure in cases where the reserve ratio test is not met. The 1962 procedure prescribed a maxium adjustment of 25 percent to lives used. This seems too abrupt an adjustment and also held no relationship to degree of failure. Consequently the Treasury adopted the schedule of minimal adjustments.

We think we now have a test which is workable, a rational control on accounting techniques which are inconsistent with an objective test procedure, and appropriate rules to permit a fair and gradual transition.

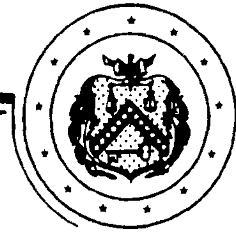
* * * * * * * *

Undoubtedly, many of you may be wondering why we are opposed to taxpayers having the guidelines as a matter of right. It boils down to the accounting concept of measuring taxable income. Just as it is a necessary factor in calculating earnings per share, depreciation is a necessary factor in calculating taxable income. That is the function of depreciation -- to

allocate costs of equipment to revenues. Using the guidelines as a matter of right would mean that in many cases the lives would be arbitrary and the allowances would be as equally arbitrary.

This arbitrary procedure would distribute the tax benefits of the 1962 depreciation reform indiscriminately among those firms which were modernizing equipment and those which were not. If the goal were simply to increase corporate cash flow to provide additional funds for expansion or investment, this could be done far more effectively and in fact was done through the 1962 investment credit and the recent four-point cut in corporate rates.

TREASURY DEPARTMENT



WASHINGTON, D.C.
March 8, 1965

FOR IMMEDIATE RELEASE

Proposed Legislation to Increase Foreign Investment in the United States

The Treasury today submitted to the Congress proposed tax legislation designed to increase foreign investment in the United States.

Drafts of the proposed legislation, titled "An Act to Remove Tax Barriers to Foreign Investment in the United States," were sent to Speaker McCormack and Vice President Humphrey. Chairman Mills of the House Ways and Means Committee has stated that he will introduce it.

The proposed legislation is part of President Johnson's program to improve the U.S. balance of payments, which was announced in his Message to the Congress on February 10, 1965.

The legislation contains proposed changes in the present tax law. These changes are designed to stimulate foreign investment in the United States by removing existing tax barriers to such investment. The proposed changes grew out of the Treasury study of recommendations made to President Johnson last April by the Task Force on Promoting Increased Foreign Investment in United States Corporate Securities. This Task Force was composed of leaders in the business and financial community and was headed by the then Under Secretary of the Treasury, Henry H. Fowler.

The changes affect the taxation of foreign individuals and foreign corporations. Many of the provisions in the present law which will be revised or eliminated by the proposed legislation have tended to complicate or inhibit investment in U.S. corporate securities without generating any significant tax revenues.

D-1526

The total annual revenue loss from enactment of the proposed legislation is estimated to be less than $5 million.

Foreign purchases of U.S. corporate securities are the greatest single source of long-term capital inflow for the United States. Between 1956 and 1963, such purchases averaged $190 million a year. During that time the value of foreign-held stocks outstanding more than doubled -- going from $6.1 billion to $12.5 billion. There is no estimate of the immediate benefit from the proposed legislation in terms of increased investment, but over time it is expected that the legislation would result in increased purchases of such securities of roughly $100 million to $200 million a year.

The bill proposes three major tax changes affecting foreigners and foreign corporations and a number of minor changes. The major changes are:

1. Reduction of the rate of U.S. estate tax applicable to foreigners to bring the tax treatment of foreigners more in line with the rates usually paid by American citizens, and with general international practice. The reduction would replace the present maximum rate of 77 percent for foreigners with a maximum rate of 15 percent, and replace the present $2,000 exemption with a $30,000 exemption.

2. Elimination of the provision in the present law which makes foreigners' non-business income, such as dividends and interest, subject to tax at regular U.S. individual tax rates if it exceeds $21,200. The tax on such income would be limited to the flat 30 percent withholding rate provided by statute or any lower withholding rate which may be provided by treaty. Business income would continue to be taxed at regular U.S. rates if the foreigner is engaged in business here.

3. Elimination of the present provision for taxation of capital gains realized by a foreigner simply because he was present in the United States at the time of the particular transaction. At the same time, the

period that a foreigner may spend in the United States without becoming subject to tax on all U.S. capital gains for the taxable year, would be extended from 90 days to 183 days.

Since the application of the U.S. estate tax to foreigners is one of the biggest barriers to foreign investment in the United States, its reduction is probably the most important of the major changes. For example, the proposed change would reduce the estate tax for a foreigner with a U.S. gross estate of $100,000 from about $17,300 to about $3,000. A U.S. citizen would pay about the same tax on such an estate if he did not claim the marital deduction, and would pay no tax if he did. (Foreigners are not allowed to claim the marital deduction.)

The proposed legislation also contains provisions dealing with former U.S. citizens who in the future give up their citizenship and live outside the United States in order to avoid U.S. taxes. It would require such former citizens to pay regular U.S. income and estate taxes on income from or property in the United States, if they gave up their U.S. citizenship less than 10 years before. This would not apply to former citizens who could show that the surrender of their citizenship was not tax motivated.

There are also other provisions designed to contribute to more rational and consistent tax treatment of foreigners and foreign corporations.

(A general explanation of the proposed legislation is attached.)

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ACT TO REMOVE TAX BARRIERS TO FOREIGN INVESTMENT IN THE UNITED STATES

General Explanation

Introduction:

In his balance of payments message of February 10, 1965, the President proposed a series of measures designed to reinforce the program to correct the balance of payments deficit of the United States. Among the proposals made by the President is one to remove the tax deterrents to foreign investment in U. S. corporate securities so as to improve our balance of payments by encouraging an increase in such investment. The recommended legislation described herein would effectuate this proposal.

The review of the tax treatment of nonresident foreigners and foreign corporations investing in the United States resulting in these legislative recommendations was prompted in large measure by the report of the Task Force on Promoting Increased Foreign Investment in U. S. Corporate Securities. This Task Force, which was headed by the then Under Secretary of the Treasury, Henry H. Fowler, was directed, among other things, to review U. S. Government and private activities which adversely affect foreign purchases of the securities of U. S. private companies. In its report, the Task Force made 39 recommendations designed to help the United States reduce its balance of payments deficit and defend its gold reserves. Among these were several directed at changing the tax treatment of foreign investors so as "to remove a number of elements in our tax structure which unnecessarily complicate and inhibit investment in U. S. corporate securities without generating material tax revenues." The Task Force report cautioned, however, that its tax recommendations were not intended to turn the United States into a tax haven, nor to drain funds from developing countries.

The legislation being requested deals with all of the tax areas discussed in the Task Force report, although in certain instances the action suggested differs from the proposals made by the Task Force. Furthermore, the draft bill contains recommendations in areas not mentioned in the Task Force report which deal with problems which came to light in the Treasury Department's study of the present system of taxing nonresident foreigners and foreign corporations. It should be emphasized that the recommendations embodied in the proposed legislation were considered not only from the viewpoint of their impact on the balance of payments, but also to ensure that they contributed to a rational and consistent program for the taxation of foreign individuals and foreign corporations. Thus, all legislative suggestions made herein are justifiable on conventional tax policy grounds.

It is estimated that the adoption of these proposals would result in a net revenue loss on an annual basis of less than $5 million.

Foreign purchases of U. S. stocks constitute the largest single source of long-term capital inflow into the United States, with even greater potential for the future. Net purchases have averaged $190 million a year between 1956 and 1963, while the outstanding value of foreign-held stocks has risen from $6.1 billion to $12.5 billion during this period. It is extremely difficult to measure the precise impact of this proposed legislation on our balance of payments because of the various factors affecting the level of foreign investment in the United States. It is anticipated that, when combined with an expanding U. S. economy, the proposed legislation will result over the years in a significant increase in such investment.

Most provisions of the draft bill are proposed to become effective to taxable years beginning after December 31, 1965. However, those provisions which provide a revised estate tax treatment for the estates of foreigners are made applicable to the estates of decedents dying after the date of the enactment of the proposed legislation. In addition, those special provisions applicable to U. S. citizens who have surrendered their United States citizenship are made applicable if the surrender occurred after March 8, 1965.

Specific Recommendations:

The following paragraphs describe the specific changes in the Internal Revenue Code of 1954 which are proposed. For this purpose the technical language of the Internal Revenue Code has been used, e.g., foreigners are described by the technical term "alien."

1. Graduated Rates.--Eliminate the taxation at graduated rates of U. S. source income of nonresident alien individuals not doing business in the United States.

Under present law, nonresident aliens deriving more than $21,200 of income from U. S. sources are subject to regular U. S. graduated rates and are required to file returns. However, graduated rates on investment income already are eliminated by treaty in the case of almost all industrial countries, except where a taxpayer is doing business in the United States and has a permanent establishment here. Only a very small amount of revenue is collected from graduated rates at present. For example, for 1962 graduated rates resulted in the collection of

$746,743 above the taxes already withheld. Although graduated rates are rarely applicable they complicate our tax law and tend to frighten and confuse foreign investors.

Thus, graduated rates, whether applied to investment income or such types of income as pensions, annuities, alimony and the like, serve no clearly defined purpose, deter foreign investment, and should be eliminated. The elimination of graduated rates will limit the liability of nonresident aliens not engaged in trade or business to taxes withheld, and where the alien is not engaged in trade or business here no return need be made. (However, graduated rates would be retained for the U. S. business income of nonresident aliens engaged in trade or business here.)

2. Segregation of Investment and Business Income and Related Matters.--Provide that (a) nonresident alien individuals engaged in trade or business in the United States be taxed on investment (non-business) income at the 30 percent statutory withholding rate, or applicable treaty rate, rather than at graduated rates; (b) foreign corporations engaged in business in the United States be denied the 85 percent dividends received deduction and be exempt from tax on their capital gains from investments in U. S. stocks; (c) nonresident alien individuals and foreign corporations not be deemed engaged in trade or business in the United States because of investment activity in the United States or because they have granted a discretionary power to a U. S. banker, broker, or adviser; and (d) nonresident alien individuals and foreign corporations be given an election to compute income from real property and mineral royalties on a net income basis and be taxed at graduated rates on such income as if engaged in trade or business in the United States.

Segregation of Business and Investment Income.

Under present law, if a nonresident alien is engaged in trade or business within the United States, he is subject to tax on all his U. S. income (including capital gains), even though some of the income is not derived from the conduct of the trade or business, at the same rates as U. S. citizens.

A nonresident alien individual engaged in trade or business in the United States should be subject to taxation on his investment income on the same basis as a nonresident alien not so engaged. Thus his investment income would be taxed at the 30 percent statutory rate or

applicable treaty rate, rather than at graduated rates. For the purpose of determining the applicability of treaty rates the alien will be deemed not to have a permanent establishment in this country. All business income should remain subject to tax at graduated rates, but the rates on business income would be computed without regard to the amount of investment income.

This change conforms to the trend in international treaty negotiations to separate investment income from business income. Whether a taxpayer is helped or harmed by segregating his investment from his business income, separate treatment is proper and equitable. Investment decisions may be made on the same basis whether or not the alien is engaged in business here, since income arising from investments here will not be subject to taxation at graduated rates in either event.

Moreover, a nonresident alien individual engaged in trade or business here should not be taxed on capital gains realized in the United States which are unrelated to the business activity carried on by him in this country, except where he would be subject to tax on those gains under the rules pertaining to nonresident aliens generally.

Tax Treatment of Income from U. S. Stock Investments by Foreign Corporations.

Under present law all the activities of a corporation are treated as part of its trade or business. Thus, for example, all its expenses are treated as deductible as business expenses. Accordingly, it would be inappropriate to segregate a foreign corporation's U. S. "investment" income from its U. S. "business" income. However, there is one abuse in this area which should be eliminated. Frequently, a foreign corporation with stock investments in the United States engages in trade or business here in some minor way (such as by owning a few parcels of real estate) and then claims the 85 percent dividends received deduction on its stock investments in the United States. Such a corporation thereby may pay far less than the 30 percent statutory or treaty withholding rate on its U. S. dividend income, although its position is essentially the same as that of a foreign corporation doing business elsewhere which has United States investment income.

To eliminate this abuse and treat all foreign corporations with investments in U. S. stocks alike, the 85 percent dividends received deduction should be denied to foreign corporations doing business here. Their income from stock investments would be made subject to the 30 percent statutory withholding rate, or any lesser treaty rate applicable to

such income, rather than regular U. S. corporate rates. For the purpose of determining whether the treaty rates on dividend income apply, a foreign corporation will be deemed not to have a permanent establishment in this country. To fully equate the tax treatment of stock investments of foreign corporations doing business in the U. S. with that of foreign corporations not doing business here, such corporations are exempted from the U. S. tax on capital gains realized on their U. S. stock investments.

Definition of "Engaged in Trade or Business."

Present law provides that the term "engaged in trade or business" does not include the effecting, through a resident broker, commission agent, or custodian, of transactions in the United States in stocks, securities, or commodities. There is some confusion as to whether the amount of activity in an investment account, or the granting of a discretionary power to a U. S. banker, broker, or adviser, will place a nonresident alien outside of this exception for security transactions so that he is engaged in trade or business in the United States. This uncertainty may deter investment in the United States and is undesirable as a matter of tax policy.

The fact that a discretionary power of investment has been given to a U. S. broker or banker does not really bear a relation to the foreigner's ability to carry out transactions in the U. S. -- the discretionary power is merely a more efficient method of operating rather than having the investor consulted on every investment decision and frequently is merely a safeguard to protect him in case of world turmoil. Nor, where the alien is an investor, is the volume of transactions material in determining whether he is engaged in trade or business.

Accordingly, the proposed legislation makes clear that individuals or corporations are not engaged in trade or business because of investment activity in the United States or because they have granted a discretionary investment power to a U. S. banker, broker, or adviser. No legislative change is necessary to provide that the volume of transactions is not material in determining whether an investor is engaged in trade or business in the United States as this is the rule under present law.

Real Estate Income and Mineral Royalties.

Under present law it is not clear whether a nonresident alien (or foreign corporation) is engaged in trade or business in the United States by reason of the mere ownership of unimproved real property or real

property subject to a strict net lease, or by reason of an agent's activities in connection with the selection of real estate investments in the United States.

If because of such activity a nonresident alien is considered as not engaged in trade or business he becomes subject to withholding tax on his gross rents. Since the consequent tax could exceed his net income, the taxation on a gross basis of income from real property should not be continued where taxation on a net basis at graduated U. S. rates would be more appropriate.

Therefore, a nonresident alien or foreign corporation should be given an election to compute their income from real property (including income from minerals and other natural resources) on a net income basis and at regular U. S. rates as if they were engaged in trade or business in the United States. Such an election is comparable to the one now appearing in many treaties to which the United States is a party. Such an election would not effect the method of taxation applied to his other income.

3. Capital Gains.--Eliminate the provision taxing capital gains realized by a nonresident alien when he is physically present in the United States, and extend from 90 to 183 days the period of presence in the United States during the year which makes nonresident aliens taxable on all their capital gains.

The underlying policy of U. S. taxation of nonresident alien individuals has been to exempt capital gains realized from sources in this country. This policy has been proper both from a tax policy standpoint and from the viewpoint of our balance of payments. However, existing law has two limitations: U. S. capital gains realized by a nonresident alien while he is physically present in the United States, or realized during a year in which he is present in the U. S. for 90 days or more, are subject to a U. S. tax of 30 percent.

The limitations now contained in our law, especially the physical presence test, contain illogical elements and are likely to have a negative impact on foreigners who are weighing the advantages and disadvantages of investing in the United States. The physical presence test was added to the law after World War II when many nonresident alien traders were frequently present in this country. Since this is no longer true,

and moreover, since the tax may be readily avoided by passing title to the property outside the United States, the provision now serves little purpose. However, it does pose a threat to the foreign investor which may deter him from investing in this country and therefore should be eliminated.

The limitation relating to presence in the United States for 90 days or more in a particular year should be retained, but the period should be lengthened to 183 days. This extension will remove a minor deterrent to travel in the United States and help mitigate the harsh consequences which may arise under the existing rule if a nonresident alien realized capital gains at the beginning of a taxable year during which he later spends 90 days or more in the United States.

4. Personal Holding Company and "Second Dividend" Taxes.--(a) Exempt foreign corporations owned entirely by nonresident alien individuals, whether or not doing business in the United States, from the personal holding company tax; (b) modify the application of the "second dividend tax" of section 861 (a) (2) (B) so that it only applies to the dividends of foreign corporations doing business in the United States which have over 80 percent U. S. source income.

Under present law any foreign corporation with U. S. investment income, whether or not doing business here, may be a personal holding company unless it is owned entirely by nonresident aliens, and unless its gross income from U. S. sources is less than 50 percent of its gross income from all sources.

The personal holding company tax should not apply to foreign corporations owned entirely by nonresident aliens. The only reason for applying our personal holding company tax to foreign corporations owned by nonresident aliens has been to prevent the accumulation of income in holding companies organized to avoid the graduated rates. With the elimination of graduated rates as suggested in recommendation 1 (and the revision of the second dividend tax, discussed below), U. S. investment income in the hands of foreign corporations will have borne the U. S. taxes properly applicable to it and accumulation of such income will not result in the avoidance of U. S. taxes imposed on the company's shareholders. Hence, there is no longer any reason to continue to apply the personal holding company tax to these corporations.

With respect to the "second dividend tax," section 861 (a) (2) (B) now provides that if a corporation derives 50 percent or more of its gross income for the preceding 3-year period from the United States, its dividends shall be treated as U. S. source income to the extent the dividends are attributable to income from the United States. As a result such dividends are subject to U. S. tax when received by a nonresident alien. This tax is often referred to as the "second dividend tax." However, under section 1441 (c) (1) a foreign corporation is not required to withhold tax on its dividends unless it is engaged in business in the United States and, in addition, more than 85 percent of its gross income is derived from U. S. sources.

It is now proposed to levy this second dividend tax only where the foreign corporation does business in the United States, and 80 percent or more of its gross income (other than dividends and capital gains on stock) is derived from U. S. sources. Where a foreign corporation is not doing business in the United States, it will pay U. S. withholding taxes on all investment income and other fixed or determinable gains and profits derived from the United States, and since that is all the tax its foreign shareholders would owe if they received the income directly, no second tax seems warranted.

With the adoption of the rule that the income from the U. S. stock investments of foreign corporations doing business here be taxed at flat statutory or treaty withholding rates, no further U. S. tax should be imposed on such income. Therefore, in applying the proposed 80 percent test, such income of the foreign corporation, whether from U. S. or foreign sources, should be disregarded and the test applied only to the corporation's other income. Furthermore, if the 80 percent rule is met, the dividends of such corporations should be subject to tax only to the extent that such dividends are from U. S. source income other than income from stock investments in the United States.

Withholding requirements should conform to the incidence of tax, and therefore withholding should be required on dividends paid by foreign corporations doing business in the United States with 80 percent or more U. S. source income to the extent such dividends are from U. S. source income other than income from stock investments in the United States.

With the adoption of the revisions proposed in U. S. system of taxing nonresident aliens and foreign corporations, the regulations dealing with the accumulated earnings tax will be revised to eliminate the application of this tax to foreign corporations not doing business in the United States which are owned entirely by nonresident aliens. The accumulation of earnings by such corporations will not result in the

avoidance of U. S. taxes. However, because of possible avoidance of the revised second dividend tax, the accumulated earnings tax will remain applicable to foreign corporations doing business here.

> 5. Estate Tax and Related Matters.--(a) Increase the $2,000 exemption from tax to $30,000 and substitute for regular U. S. estate tax rates a 5-10-15 percent rate schedule; (b) provide that bonds issued by domestic corporations or governmental units and held by nonresident aliens are property within the United States and therefore are subject to estate tax; and (c) provide that transfers of intangible property by a nonresident alien engaged in business in the United States are not subject to gift tax.

It is generally believed that high estate taxes on foreign investors are one of the most important deterrents in our tax laws to foreign investment in the United States. Our rates in many cases are higher than those of other countries and in these situations, despite tax conventions and statutory foreign estate tax credits, nonresidents who invest in the United States suffer an estate tax burden. Moreover, under present law a nonresident alien's estate must pay heavier estate taxes on its U. S. assets than would the estate of a United States citizen owning the same assets.

To mitigate this deterrent to investment and to rationalize the estate tax treatment of nonresident aliens, the exemption for estates of nonresident alien decedents should be increased from $2,000 to $30,000 and such estates should be subject to tax at the following rates:

If the taxable estate is:	The tax shall be:
Not over $100,000	- 5% of the taxable estate
Over $100,000 but not over $750,000	- $5,000, plus 10% of excess over $100,000
Over $750,000	- $70,000, plus 15% of excess over $750,000

The increase in exemption and reduced rates will bring U. S. effective estate tax rates on nonresident aliens to a level somewhat higher than those imposed upon resident estates in Switzerland, Germany, France, and the Netherlands, for example, but substantially below those imposed on resident estates in the United Kingdom, Canada, and Italy. Thus U. S.

investment from these latter countries bears no higher estate tax than local investment because of foreign tax credits or exemptions provided in such countries. The proposed tax treatment of the U. S. estates of nonresident aliens is similar to the treatment accorded the estates of nonresidents by Canada, whose rates on the estates of its citizens are comparable to our own. Where additional reductions are justified these may be made by treaty.

These changes should result in more appropriate estate tax treatment of nonresident aliens and thereby improve the climate for foreign investment in the U. S. Particularly in the case of nonresident alien decedents who have only a small amount of U. S. property in their estates, present U. S. rates and the limited exemption provided result in an excessive effective rate of estate tax. The proposed changes correct this situation. The new rates will produce for nonresident aliens' estates an effective rate of tax on U. S. assets which in many cases is comparable to that applicable to U. S. citizens who may avail themselves of the $60,000 exemption and marital deduction (which are not available to nonresident aliens).

The following figures show the effective rates for nonresident aliens under present law, and the effective rates produced by the proposed exemption and rates as compared to those applicable to the estates of U. S. citizens electing and not electing the marital deduction:

U. S. gross estate	Nonresident alien under present law	Nonresident alien under proposed law	U. S. citizen with marital deduction	U. S. citizen without marital deduction
$ 60,000	12.5	2.0	-	-
100,000	17.3	3.0	-	3.0
500,000	25.8	7.4	8.0	22.1
1,000,000	38.8	8.8	11.1	26.7
5,000,000	43.0	12.6	16.9	42.3

As part of this revision of the estate tax, the situs rule with respect to bonds should be changed. The present rule, very frequently modified by treaty, is that bonds have situs where they are physically

located. This rule is illogical, permits tax avoidance, and is not a suitable way to determine whether bonds are subject to an estate tax as their location is one of their least significant characteristics for tax purposes. Other intangible debt obligations are presently treated as property within the United States if issued by or enforceable against a domestic corporation or resident of the United States. Accordingly, it is recommended that our law be amended to provide that bonds issued by domestic corporations or domestic governmental units and held by nonresident aliens are property within the United States and therefore subject to estate tax.

Furthermore, a present defect in the operation of the credit against the estate tax for state death taxes in the case of nonresident aliens should be corrected. Under present law the estate of a nonresident alien may receive the full credit permitted by section 2011 even though only a portion of the property subject to federal tax was taxed by a state. The amount of credit permitted by section 2011 in the case of nonresident aliens should be limited to that portion of the credit allowed the estate which is allocable to property taxed by both the state and the federal government.

Our gift tax law as it applies to nonresident aliens should be revised. Under present law a nonresident alien doing business in the United States is subject to gift tax on transfers of U. S. intangible property. This rule has little significance from the standpoint of revenue and tax equity. Therefore, our law should be amended to provide that transfers of intangible property by a nonresident alien, whether or not engaged in business in the United States, are not subject to gift tax. Gifts of tangibles situated in the U. S. which are owned by nonresident aliens will continue to be subject to U. S. gift taxes.

> 6. Expatriate American Citizens.--Subject the U. S. source income of expatriate citizens of the United States to income tax at regular U. S. rates and their U. S. estates to estate tax at regular U. S. rates, where they surrendered their U. S. citizenship within 10 years preceding the taxable year in question unless the surrender was not tax motivated.

As a result of the proposed elimination of graduated rates, taken together with the proposed change in our estate tax as it applies to nonresident aliens, an American citizen who gives up his citizenship and moves to a foreign country would be able to very substantially reduce his U. S. estate and income tax liabilities.

While it may be doubted that there are many U. S. citizens who would be willing to give up their U. S. citizenship no matter how substantial the tax incentive, a tax incentive so great might lead some Americans to surrender their citizenship for the ultimate benefit of their families. Thus, it seems desirable, if progressive rates are eliminated for nonresident aliens and our estate tax on the estates of nonresident aliens is significantly reduced, that steps be taken to limit the tax advantages of alienage for our citizens.

The recommended legislation accomplishes this by providing that a nonresident alien who surrendered his U. S. citizenship within the preceding 10 years shall remain subject to tax at regular U. S. rates on all income derived from U. S. sources. A similar rule would apply for estate tax purposes to the U. S. estates of expatriate citizens of the United States. Thus, the U. S. property owned by expatriates would be taxed at the estate tax rates applicable to our citizens (but without the $60,000 exemption, marital deduction and other such provisions applicable to our citizens), in cases where the alien decedent's surrender of citizenship took place less than 10 years before the day of his death. The $30,000 exemption granted nonresident aliens would be allowed to expatriate citizens.

To prevent an expatriate from avoiding regular U. S. rates on his U. S. income by transferring his U. S. property to a foreign corporation, or disposing of it overseas, the recommended legislation treats profits from the sale or exchange of U. S. property by an expatriate as being U. S. source income. To preclude the use of a foreign corporation by an expatriate to hold his U. S. property and thus avoid U. S. estate taxes at regular U. S. rates, an expatriate is treated as owning his pro rata share of the U. S. property held by any foreign corporation in which he alone owns a 10 percent interest and which he, together with related parties, controls. Furthermore, the recommended legislation makes gifts by expatriates of intangibles situated in the U. S. subject to gift tax.

These provisions would be applicable only to expatriates who surrendered their citizenship after March 8, 1965, and would not apply if contravened by the provisions of a tax convention with a foreign country. Moreover, they would not be applicable if the expatriate can establish that the avoidance of U. S. tax was not a principal reason for his surrender of citizenship.

7. <u>Retaining Treaty Bargaining Position</u>.--Provide that the President be given authority to eliminate with respect to a particular foreign country any liberalizing changes which have been enacted, if he finds that the country concerned has not acted to provide reciprocal concessions for our citizens after being requested to do so by the United States.

One difficulty which may arise from the liberalizing changes being proposed in U. S. tax law is that it may place the United States at a disadvantage in negotiating concessions for Americans abroad as respects foreign tax laws. Moreover, the failure to obtain concessions abroad may have an effect upon our revenues since the foreign income and estate tax credits we grant our citizens mean that the United States bears a large share of the burden of foreign taxation of U. S. citizens. To protect the bargaining power of the United States the President should therefore be authorized to reapply present law to the residents of any foreign country which he finds has not acted (when requested by the United States to do so, as in treaty negotiations) to provide for our citizens as respects their United States income or estates substantially the same benefits as those enjoyed by its citizens as a result of the proposed legislative changes. The provisions reapplied would be limited to the area or areas where our citizens were disadvantaged. Furthermore, the provisions reapplied could be partly mitigated, if that were desirable, by treaty with the other country.

It is essential, if we are to revise our system of taxing nonresident aliens as is being suggested, that this recommendation be adopted. Otherwise, we risk sacrificing the interests of our citizens subject to tax abroad and reducing our revenues in an effort to simplify the taxes imposed upon nonresident aliens.

> 8. Quarterly Payment of Withheld Taxes.--Provide that withholding agents collecting taxes from amounts paid to nonresident aliens be required to remit such taxes on a quarterly basis.

Under the present system, withholding agents are required to remit taxes withheld on aliens during any calendar year on or before March 15 after the close of such year. This procedure varies considerably from that applicable to domestic income tax withheld from wages and employee and employer F.I.C.A. taxes, where quarterly (in some cases monthly) payments are required.

Withholding on income derived by nonresident aliens should be brought more closely into line with the domestic income tax system. There is no reason to permit withholding agents to keep nonresident aliens' taxes for periods which may exceed a full year before being required to remit those taxes, when employers must remit taxes withheld on domestic wages at least quarterly. The Government loses the use of the revenue, which revenue in 1962 exceeded $80 million, for the entire year. Accordingly, section 1461 requiring the return and payment of taxes withheld on aliens by March 15 should be revised to eliminate this

specific requirement. The Secretary or his delegate would then exercise the general authority granted him under sections 6011 and 6071 and require withholding agents to return and remit taxes withheld on income derived by nonresident aliens quarterly. However, no detailed quarterly return would be required.

9. Exemption for Bank Deposits.--Under present law, an exemption from income taxes, withholding, and estate taxes is provided for bank deposits of nonresident alien individuals not doing business in the United States. By administrative interpretation, deposits in some savings and loan associations are treated as bank deposits for purposes of these exemptions, but such exemptions do not apply to most savings and loan associations. There does not appear to be any justification for this distinction between types of savings and loan associations and it should be eliminated by extending these exemptions to all such associations.

10. Foreign Tax Credit--Similar Credit Requirement.--Section 901 (b) (3) provides that resident aliens are entitled to a foreign tax credit only if their native country allows a similar credit to our citizens residing in that country. Apparently the provision is designed to encourage foreign countries to grant similar credits to our citizens. However, this requirement works a hardship on refugees from totalitarian governments. For example, the Castro government is not concerned with whether Cubans in this country receive a foreign tax credit. Therefore, it is recommended that the similar credit requirement of section 901 (b) (3) be eliminated, subject to reinstatement by the President where the foreign country, upon request, refuses to provide a similar credit for U. S. citizens. Of course, no request would ordinarily be made in a case, such as Cuba, where the possible reinstatement of the present reciprocity requirement would have little or no effect upon the foreign government's policy toward U. S. citizens.

11. Stamp Taxes on Original Issuances and Transfers of Foreign Stocks and Bonds in the United States to Foreign Purchasers.--Our stamp tax on certificates of indebtedness is imposed on issuances and transfers within the territorial jurisdiction of the United States. The stamp tax on issuances of stock does not apply to stock issued by a foreign corporation, but the transfer tax applies to transfers in the United States. These taxes have forced U. S. underwriters who handle issuances of foreign bonds and stocks and their original distribution to foreign purchasers to handle closings overseas. In view of the limited association of such issuances and transfers with the United States and the fact

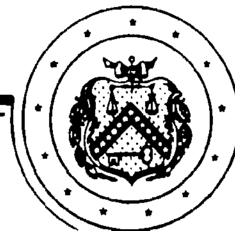
that these taxes are ordinarily avoided by moving the transactions outside the United States, our law should be revised to exempt original offerings of foreign issuers to foreign purchasers from our stamp taxes where only the issuances and transfers take place in the United States. Such an exemption would facilitate such transactions and their handling by U. S. underwriters and is consistent with our balance of payments objectives.

12. Withholding Taxes on Savings Bond Interest.--The Ryukyu Islands, the principal island of which is Okinawa, and the Trust Territory of the Pacific, principally the Caroline, Marshall and Mariana Islands, although under the protection and control of the United States, are technically foreign territory. Thus, the islanders are nonresident aliens and subject to a 30 percent withholding tax on interest on United States savings bonds. This interferes with the selling of U. S. savings bonds. Therefore, the 30 percent withholding tax as it applies to the interest income realized from U. S. savings bonds by native residents of these islands should be eliminated.

In addition to the changes discussed above, the proposed legislation makes a number of clarifying and conforming changes to present law.

March 8, 1965

TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE A.M. NEWSPAPERS,
sday, March 9, 1965.

March 8, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that the tenders for two series of easury bills, one series to be an additional issue of the bills dated December 10, 1964, d the other series to be dated March 11, 1965, which were offered on March 3, were opened the Federal Reserve Banks on March 8. Tenders were invited for $1,200,000,000, or ereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. e details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing June 10, 1965		:	182-day Treasury bills maturing September 9, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.006	3.932%	:	97.984	3.988%
Low	99.000	3.956%	:	97.973	4.009%
Average	99.002	3.948% 1/	:	97.977	4.001% 1/

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

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 27,049,000	$ 16,694,000	:	$ 29,169,000	$ 4,169,000
New York	1,519,130,000	764,030,000	:	1,380,961,000	786,461,000
Philadelphia	27,762,000	15,762,000	:	11,185,000	3,185,000
Cleveland	30,007,000	30,007,000	:	63,809,000	28,945,000
Richmond	17,149,000	13,799,000	:	5,035,000	5,010,000
Atlanta	42,721,000	36,785,000	:	24,799,000	23,049,000
Chicago	277,318,000	169,818,000	:	240,683,000	60,483,000
St. Louis	35,688,000	29,028,000	:	13,422,000	10,922,000
Minneapolis	25,895,000	20,495,000	:	11,857,000	9,357,000
Kansas City	31,240,000	29,740,000	:	15,426,000	14,926,000
Dallas	30,246,000	20,246,000	:	11,008,000	6,008,000
San Francisco	87,050,000	54,150,000	:	72,620,000	47,620,000
TOTALS	$2,151,255,000	$1,200,554,000 a/		$1,879,974,000	$1,000,135,000 b/

/ Includes $255,659,000 noncompetitive tenders accepted at the average price of 99.002
/ Includes $99,321,000 noncompetitive tenders accepted at the average price of 97.977
/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 4.04%, for the 91-day bills, and 4.14%, 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-1527

United States Savings Bonds Issued and Redeemed Through February 28, 1965
(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	4,992	11	.2
Series F & G-1941 - 1952	29,521	29,424	97	.3
Series J and K - 1952	400	381	19	4.7
UNMATURED				
Series E: 3/				
1941	1,842	1,576	266	14.4
1942	8,136	6,985	1,151	14.1
1943	13,094	11,271	1,823	13.9
1944	15,266	13,001	2,264	14.8
1945	11,959	9,942	2,016	16.8
1946	5,383	4,265	1,118	20.7
1947	5,079	3,852	1,227	24.1
1948	5,238	3,871	1,367	26.1
1949	5,158	3,729	1,429	27.7
1950	4,502	3,182	1,320	29.3
1951	3,898	2,750	1,148	29.4
1952	4,083	2,834	1,249	30.5
1953	4,648	3,097	1,551	33.3
1954	4,726	3,009	1,717	36.3
1955	4,908	2,960	1,948	39.6
1956	4,689	2,837	1,852	39.50
1957	4,407	2,601	1,806	40.98
1958	4,266	2,381	1,885	44.19
1959	3,992	2,180	1,812	45.39
1960	3,978	2,051	1,928	48.47
1961	3,993	1,878	2,116	52.99
1962	3,844	1,701	2,142	55.72
1963	4,258	1,581	2,677	62.87
1964	3,998	956	3,042	76.09
1965	20	-	20	100.00
Unclassified	510	517	-7	-
Total Series E	135,874	95,008	40,866	30.08
Series H (1952 - Jan. 1957) 3/	3,670	1,654	2,017	54.96
H (Feb. 1957 - 1965)	6,627	963	5,664	85.47
Total Series H	10,297	2,616	7,681	74.59
Total Series E and H	146,171	97,624	48,547	33.21
Series J and K (1953 - 1957)	3,324	1,990	4/ 1,334	40.13
All Series — Total matured	34,924	34,797	127	.36
All Series — Total unmatured	149,495	99,614	49,881	33.37
All Series — Grand Total	184,419	134,411	50,008	27.12

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.

BUREAU OF THE PUBLIC DEBT

United States Savings Bonds Issued and Redeemed Through **February 28, 1965**
(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
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ies J and K - 1952	400	381	19	4.75
TURED				
ies E: 3/				
1941	1,842	1,576	266	14.44
1942	8,136	6,985	1,151	14.15
1943	13,094	11,271	1,823	13.92
1944	15,266	13,001	2,264	14.83
1945	11,959	9,942	2,016	16.86
1946	5,383	4,265	1,118	20.77
1947	5,079	3,852	1,227	24.16
1948	5,238	3,871	1,367	26.10
1949	5,158	3,729	1,429	27.70
1950	4,502	3,182	1,320	29.32
1951	3,898	2,750	1,148	29.45
1952	4,083	2,834	1,249	30.59
1953	4,648	3,097	1,551	33.37
1954	4,726	3,009	1,717	36.33
1955	4,908	2,960	1,948	39.69
1956	4,689	2,837	1,852	39.50
1957	4,407	2,601	1,806	40.98
1958	4,266	2,381	1,885	44.19
1959	3,992	2,180	1,812	45.39
1960	3,978	2,051	1,928	48.47
1961	3,993	1,878	2,116	52.99
1962	3,844	1,701	2,142	55.72
1963	4,258	1,581	2,677	62.87
1964	3,998	956	3,042	76.09
1965	20	-	20	100.00
Unclassified	510	517	-7	-
Total Series E	135,874	95,008	40,866	30.08
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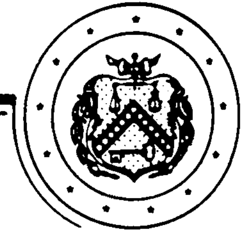
At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.
Includes matured bonds which have not been presented for redemption.

BUREAU OF THE PUBLIC DEBT

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 8, 1965

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN FEBRUARY

During February 1965, 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 $210,921,950.00

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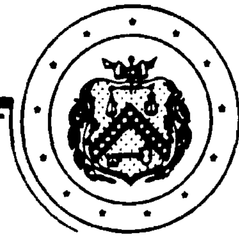
D-1528

TREASURY DEPARTMENT



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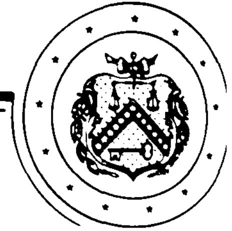


WASHINGTON, D.C.

March 8, 1965

FOR IMMEDIATE RELEASE

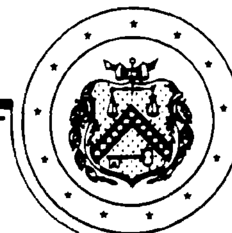
TREASURY DECISION ON FERTILIZERS
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of fertilizers: ammonium phosphate type, ammonium nitrate type from Canada. A notice of a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Canada is being withheld at this time.

The dollar value of imports of the involved merchandise received during the period January through October 1964 was approximately $13,000,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 8, 1965

FOR IMMEDIATE RELEASE

TREASURY DECISION ON FERTILIZERS
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed the investigation with respect to the possible dumping of fertilizers: ammonium phosphate type, ammonium nitrate type from Canada. A notice of a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Canada is being withheld at this time.

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the possible forms those rules might take. This initial enforcement effort caused confusion and some hardship and we have therefore taken steps to ameliorate them in Revenue Procedure 64-54.

The emphasis will now shift from rule making to implementation of the existing rules. Our major problem in the next few years will be to assure that these rules operate effectively and sensibly and to improve them wherever possible by using the knowledge gained through enforcement experience. Some of these rules are novel and complex. We recognize this, and that as a consequence, enforcement will have to be both understanding and flexible. It is toward this end that our efforts over the coming years will be concentrated.

to reduce those taxes when requested to do so in the course of treaty negotiations. This will both permit initial reduction of taxation of foreigners ~~and U. S. citizens~~ and at the same time preserve our power to protect our taxpayers with activities or assets abroad.

The changes in our taxation of foreigners just described are not solely designed to improve our balance of payments but are desirable in and of themselves. The time had come for a thorough review of the application of our tax law to foreigners and to their investments here.

Conclusion

In recent years we have been engaged in the task of revising the rules of international taxation affecting not only the foreign income of United States citizens and corporations but also the United States source income of foreigners. This revision was in large part the result of a changing world -- a world of a far greater freedom in international capital movements and of international trade.

This task of revision is now nearing completion. The Revenue Act of 1962 has been enacted and the regulations under it will soon have all been issued. Enforcement activities under section 482, which began to be intensified in 1960, have given us information as to how taxpayers had, in fact, been dealing with their foreign affiliates and indicated to us both the need for clearer rules and

problems may arise during the course of their preparation which had not previously been foreseen and are not specifically covered by the regulations. If this occurs, we hope that you will bring these questions to our attention.

Foreign Investment in the United States

Finally, I would like to comment briefly on the draft bill which the Secretary of the Treasury sent to Congress yesterday relating to foreignors investing in the United States. It is an outgrowth of the report of the so-called "Fowler Task Force" and is intended to remove some of the hardships and complexities in our tax law which have in the past served to prevent foreigners from investing in this country. The major change proposed is a sharp reduction in the hitherto extremely high estate tax payable by foreigners on their United States assets -- a tax which is at present higher than that payable by United States citizens owning a comparable estate. In addition, the draft bill would eliminate unnecessary complexities in the taxation of foreigners' United States source income. These provisions in current law raise very little revenue for the United States and deter investment by foreigners.

We have also included in the draft bill a provision which would permit the President to reimpose higher taxes if he finds that foreign countries in the situations covered by the bill are imposing burdensome taxes on United States investors within their borders and refusing

advantages which the guidelines will provide in eliminating confusion and delay.

I might mention that these guidelines will not deal with the problem arising under section 351 of the definition of the word "property". While we recognize that the definition of this term has given rise to problems where transfers of know-how to foreign corporations are at issue, it is not truly a section 367 problem and will therefore not be covered in this ruling.

Regulations under the Revenue Act of 1962

Another area of concern to you on which we are currently working is promulgation of regulations under the 1962 Revenue Act. With few exceptions regulations have already been published under all of the sections of Subpart F of the Act - the portion of the Act which passes certain types of income received by a foreign corporation through to its United States stockholders. We anticipate that regulations under the remaining sections will be issued by the end of the month, or at any rate before April 15. I would like to express again the appreciation of the Treasury Department for the cooperation which it has received from taxpayers in promulgating these regulations. We hope as we near the end of the task that we will continue to receive your help. We also realize that the tax returns which you are currently preparing are, in many instances, the first which truly involve the application of Subpart F. Perhaps

Section 367 Guidelines

We are also working on guidelines governing the application of section 367 of the Code, the section which requires prior Treasury approval for tax-free incorporations and reorganizations involving foreign corporations. We recognize that the application of section 367 in the past has caused taxpayers some difficulty. This has been in part the result of the lack of published guidelines in the area. The Service has, of course, developed rules to be used in reaching its decisions on section 367 ruling applications, but these have not been published. As a result, taxpayers have frequently learned of them either by heresay or when application of these rules led to a denial of their section 367 application. Consequently, there has been considerable confusion in this area which has made tax planning difficult and delayed consummation of international transactions.

The guidelines are intended to solve this problem by setting forth specific rules for passing upon section 367 applications. They will therefore have the effect of substituting objective criteria for determining whether a ruling is to be issued for the subjective criterion presently in use. We believe that these proposed rules will be generous and will not interfere with international transactions which do not involve tax avoidance. However, the guidelines may possibly result in some loss of flexibility. On balance we believe that this possible loss of flexibility is far outweighed by the

Tax Treaties and Section 482

Meanwhile we are continuing to work toward development of an international mechanism for handling cases involving inconsistent determinations by two governments as to the proper allocation of income. In our most recently negotiated bilateral tax treaties, we are expanding the scope of the relevant provision to eliminate procedural barriers to implement any agreement that is reached between the two governments. I do not think we can expect miracles in this area - the system for handling such controversies will only work if both countries involved recognize the seriousness of the problem and are eager to work for its solution. On our side, we are taking steps to improve our handling of such controversies. We expect to publish rules indicating how a taxpayer may bring relevant cases to the attention of the Internal Revenue Service and how such requests for government intervention will be handled. However, the ultimate success of this program will in part depend on the attitude of other nations. We have reason to believe that as restrictions on the free movement of capital imposed by foreign countries diminish, those countries become faced by problems similar to those with which this country has had to deal in the last ten years, including problems of the type covered by section 482. We believe that as these countries are forced to develop rules to protect their revenues, they will be interested in developing international methods of eliminating or settling conflicts arising from inconsistent application of internal tax rules.

and determine whether under all the facts and circumstances application to the years prior to 1965 would be equitable. If not, special interim rules will be promulgated.

Another part of the section 482 problem concerns "repatriation" of the amount allocated. By repatriation, I mean the right of the taxpayer to receive a distribution from its foreign affiliate in an amount equal to the section 482 allocation without having to pay tax on such distribution. A few rulings have been issued allowing taxpayers to do this. However, the problem is now undergoing thorough review and rulings have been held up pending its completion, which is expected this month. An announcement of our policies in this area will be issued at about the same time as our first group of section 482 regulations. It seems likely that this announcement will take the form of a technical information release by the Internal Revenue Service.

In addition to our consideration of whether repatriation should be allowed, we are also considering subsidiary questions which will arise if repatriation should be allowed. Some taxpayers have criticized the rulings which have been issued because they required repatriation within a short period of time after the date of the ruling. Other taxpayers have suggested that dividends paid in the year of the allocation should be treated as repatriated amounts if the taxpayer so desires. We are looking into both of these suggestions.

carry out intercompany transactions without fear of adjustment on audit. Again, we are not trying to collect small amounts and good faith efforts to meet the regulatory standards will be respected.

Our experience has indicated that most cases involving section 482 concern four types of allocation: interest, general and administrative expenses, use of intangibles, and intercompany pricing. Further, our experience shows that the latter two problems are related; the most serious disputes over price arise where intangibles are involved. At the present time, we are nearing completion of regulations dealing with the proper method of allocating general and administrative expenses and interest allocations. These regulations are expected to be published by the end of this month. Unfortunately, we are not as far along as respects the provisions on intercompany pricing and the use of intangibles, but we do not wish to delay those regulations on which consideration has been completed any longer. We now hope that regulations on pricing and the use of intangible property will be ready by the end of May.

We have not yet determined the extent to which these new rules will apply to years prior to 1965. Of course, taxpayers will be allowed to invoke these rules if they wish to do so. On the other hand, application prior to 1965 may in certain circumstances work hardship if the rules are less favorable to taxpayers than pre-existing law was thought to be. We will review each regulation as it appears

in the spirit of the Revenue Procedure or, if a particular problem of general interest should develop, through a revenue ruling or similar announcement.

One particular question which has been raised deserves comment. It has been suggested that the Revenue Procedure applies only to section 482 cases and will not apply if the same issue is raised under other sections of the Code, for example section 61. I can assure you that this is not the case. The Revenue Procedure is to have broad application and covers any case to which section 482 is properly applicable even though the deficiency is or was asserted under some other section of the law.

Revenue Procedure 64-54, however, does not set forth rules for deciding the cases which remain under section 482. Thus, even in those cases where an offset is to be allowed, the amount of the deficiency remains to be determined. As you know, we have been working on section 482 regulations. It is not easy, however, or always possible to draft detailed guidelines. Each rule must be applicable in a wide variety of circumstances and yet not work injustice either to the taxpayer or to the Government. In preparing these rules, we have had discussions with people outside Treasury and they have rendered us valuable assistance. We expect that these rules will furnish taxpayers with sufficient guidance to enable those who follow the principles set forth in the regulations to

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The primary effect of Revenue Procedure 64-54 where a foreign affiliate is controlled by a domestic company was either to speed receipt of tax credits in cases in which section 482 was applied or if, because of the Revenue Procedure, it was not to be applied, to postpone realization of income. To extend the Revenue Procedure to cases in which the foreign corporation controlled the domestic corporation would have been to "create" tax credits not otherwise available to the U. S. company or to permanently reduce income rather than to defer it.

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affiliated corporation with respect to such income. It also announced that the allocations would not be made under circumstances in which the Treasury recognized that the application of section 482 might be novel and retroactive in effect.

The Revenue Procedure does not, however, eliminate all pre-1963 section 482 allocation cases. The Revenue Procedure does not generally apply to cases in which goods were sold between affiliates, nor to cases involving base companies, and the impact of the offset allowance for foreign taxes paid will vary with each individual case. The regulations have always clearly indicated that sales transactions were subject to section 482 and that the prices charged in such transactions must be arm's length. We therefore did not believe that any taxpayer could claim surprise or unfair treatment because of the application of this section to such transactions. Obviously, there are difficulties in determining what is an arm's length price. As any businessman realizes, it is not easy to determine a "fair" price. Despite this difficulty, the Service is charged with the responsibility under section 482 for determining the correct income of a U. S. company and if to do so requires a review of the prices at which it sells or buys goods from an affiliate, it must be carried out. Obviously, it is not sensible policy to argue over small amounts. Where the price is a reasonable approximation of a correct price determined by management in the exercise of its best judgment, no

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As audits proceeded, many section 482 allocations were proposed by the OIO. These frequently related to typical section 482 cases in which goods had been sold between affiliates at prices which were not arm's length. But in many other cases they related to situations such as those I previously mentioned: patents were licensed to foreign manufacturing affiliates without suitable compensation or funds were advanced to such affiliates for long periods of time without any payment of interest. Many taxpayers complained that such application of section 482 was novel and retroactive in effect. Furthermore, they stated that refund claims by foreign subsidiaries would be wholly ineffectual in almost every case. As a result, such section 482 allocations would cause double taxation. Since some of the section 482 allocations involved transactions between U. S. companies and affiliates located in high-tax areas abroad, the total tax could in some cases wipe out the profits realized.

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For years prior to 1963, there was in some situations a great deal of confusion as to when and how section 482 should be applied. Some taxpayers believed that it was not applicable to cases in which funds were advanced or intangible assets made available to related corporations which were operating as independent entities.

As a result, when the Internal Revenue Service, through its Office of International Operations (OIO), first scrutinized in detail transactions between U. S. taxpayers and their foreign affiliates, it found many cases in which it believed allocations of income under section 482 were proper. But in many of those cases, the income which had been allocated to the foreign subsidiary had already been

the credit benefits all U. S. taxpayers with interests in the country with which we enter into a treaty. A conventional tax treaty lowers the rate of tax on income at the source ~~with resulting higher tax revenues to the country in which the recipient resides~~. Since citizens of a developing country are unlikely to have substantial investments or activities in the United States, that country receives fewer initial benefits from a conventional treaty than the United States and its citizens who have substantial investments and trade throughout the world. Also, a developing country must seriously weigh any loss of revenue that may result if its tax base is narrowed by treaty.

Consequently, unless the United States extends the investment credit to U. S. investors, the developing country may think it is unlikely to gain sufficient benefit from a tax treaty and therefore may be unwilling to sign one. Thus, the seven percent credit provision in the treaty benefits not only new investors in the developing country involved but all U. S. taxpayers with interests in that country.

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We have some reservations about both the language and substance of this draft, and they will have to be discussed with the French.

We have requested taxpayers to send us any suggestions which they wish to make relevant to all these negotiations. In view of the unusual significance of the French negotiation, we hope taxpayers will give us their comments and suggestions so that we can conduct this negotiation with as thorough a knowledge of the problems involved as possible.

The Investment Credit for Developing Nations

The seven percent investment credit provision in the Thai treaty is also included in the proposed treaty with Israel, and we hope it will be incorporated in most of our future treaties with developing countries. This credit is intended to equalize the tax treatment of investments in developing countries with that of investment in the United States.

U. S. investment in depreciable personal property was granted a seven percent tax credit by the Revenue Act of 1962, and this has helped to spur investment and strengthen our economy. Encouragement of private investment in the developing countries has long been part of United States' policy. The purpose of extending the credit to these countries is to increase such investment and thus foster the economic development of these countries. Furthermore, extension of

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Last month Treasury representatives went to Lisbon to discuss the possibility of negotiating a tax convention with Portugal. These discussions gave us every reason to believe that a convention with that country can be worked out, and representatives of the Portuguese Government will probably come to Washington late this year to work on a draft of such a convention.

In April, a Treasury delegation, headed by Assistant Secretary Surrey, will go to The Hague to discuss with the Government of the Netherlands possible revisions in our tax convention with that country. Revision of that convention has been requested by the Dutch in the light of proposed changes in their domestic corporate income tax law which they are presently considering.

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SHOREHAM HOTEL, WASHINGTON, D. C.
10:15 A.M. EST, TUESDAY, MARCH 9, 1965

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I will not repeat Mr. Surrey's emphasis on our tax treaty program, because there have been few developments in the last six months that were not forecast in Mr. Surrey's speech. We are continuing to make steady progress in bringing our treaty program up to date. For example, only last week we signed a treaty with Thailand, the first treaty to be signed with a developing country extending the seven percent investment credit to U. S. private investment in that country.

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Our experience has indicated that most cases involving section 482 concern four types of allocation: interest, general and administrative expenses, use of intangibles, and intercompany pricing. Further, our experience shows that the latter two problems are related; the most serious disputes over price arise where intangibles are involved. At the present time, we are nearing completion of regulations dealing with the proper method of allocating general and administrative expenses and interest allocations. These regulations are expected to be published by the end of this month. Unfortunately, we are not as far along as respects the provisions on intercompany pricing and the use of intangibles, but we do not wish to delay those regulations on which consideration has been completed any longer. We now hope that regulations on pricing and the use of intangible property will be ready by the end of May.

We have not yet determined the extent to which these new rules will apply to years prior to 1965. Of course, taxpayers will be allowed to invoke these rules if they wish to do so. On the other hand, application prior to 1965 may in certain circumstances work hardship if the rules are less favorable to taxpayers than pre-existing law was thought to be. We will review each regulation as it appears

and determine whether under all the facts and circumstances application to the years prior to 1965 would be equitable. If not, special interim rules will be promulgated.

Another part of the section 482 problem concerns "repatriation" of the amount allocated. By repatriation, I mean the right of the taxpayer to receive a distribution from its foreign affiliate in an amount equal to the section 482 allocation without having to pay tax on such distribution. A few rulings have been issued allowing taxpayers to do this. However, the problem is now undergoing thorough review and rulings have been held up pending its completion, which is expected this month. An announcement of our policies in this area will be issued at about the same time as our first group of section 482 regulations. It seems likely that this announcement will take the form of a technical information release by the Internal Revenue Service.

In addition to our consideration of whether repatriation should be allowed, we are also considering subsidiary questions which will arise if repatriation should be allowed. Some taxpayers have criticized the rulings which have been issued because they required repatriation within a short period of time after the date of the ruling. Other taxpayers have suggested that dividends paid in the year of the allocation should be treated as repatriated amounts if the taxpayer so desires. We are looking into both of these suggestions.

Tax Treaties and Section 482

Meanwhile we are continuing to work toward development of an international mechanism for handling cases involving inconsistent determinations by two governments as to the proper allocation of income. In our most recently negotiated bilateral tax treaties, we are expanding the scope of the relevant provision to eliminate procedural barriers to implement any agreement that is reached between the two governments. I do not think we can expect miracles in this area - the system for handling such controversies will only work if both countries involved recognize the seriousness of the problem and are eager to work for its solution. On our side, we are taking steps to improve our handling of such controversies. We expect to publish rules indicating how a taxpayer may bring relevant cases to the attention of the Internal Revenue Service and how such requests for government intervention will be handled. However, the ultimate success of this program will in part depend on the attitude of other nations. We have reason to believe that as restrictions on the free movement of capital imposed by foreign countries diminish, those countries become faced by problems similar to those with which this country has had to deal in the last ten years, including problems of the type covered by section 482. We believe that as these countries are forced to develop rules to protect their revenues, they will be interested in developing international methods of eliminating or settling conflicts arising from inconsistent application of internal tax rules.

Section 367 Guidelines

We are also working on guidelines governing the application of section 367 of the Code, the section which requires prior Treasury approval for tax-free incorporations and reorganizations involving foreign corporations. We recognize that the application of section 367 in the past has caused taxpayers some difficulty. This has been in part the result of the lack of published guidelines in the area. The Service has, of course, developed rules to be used in reaching its decisions on section 367 ruling applications, but these have not been published. As a result, taxpayers have frequently learned of them either by heresay or when application of these rules led to a denial of their section 367 application. Consequently, there has been considerable confusion in this area which has made tax planning difficult and delayed consummation of international transactions.

The guidelines are intended to solve this problem by setting forth specific rules for passing upon section 367 applications. They will therefore have the effect of substituting objective criteria for determining whether a ruling is to be issued for the subjective criterion presently in use. We believe that these proposed rules will be generous and will not interfere with international transactions which do not involve tax avoidance. However, the guidelines may possibly result in some loss of flexibility. On balance we believe that this possible loss of flexibility is far outweighed by the

advantages which the guidelines will provide in eliminating confusion and delay.

I might mention that these guidelines will not deal with the problem arising under section 351 of the definition of the word "property". While we recognize that the definition of this term has given rise to problems where transfers of know-how to foreign corporations are at issue, it is not truly a section 367 problem and will therefore not be covered in this ruling.

Regulations under the Revenue Act of 1962

Another area of concern to you on which we are currently working is promulgation of regulations under the 1962 Revenue Act. With few exceptions regulations have already been published under all of the sections of Subpart F of the Act - the portion of the Act which passes certain types of income received by a foreign corporation through to its United States stockholders. We anticipate that regulations under the remaining sections will be issued by the end of the month, or at any rate before April 15. I would like to express again the appreciation of the Treasury Department for the cooperation which it has received from taxpayers in promulgating these regulations. We hope as we near the end of the task that we will continue to receive your help. We also realize that the tax returns which you are currently preparing are, in many instances, the first which truly involve the application of Subpart F. Perhaps

problems may arise during the course of their preparation which had not previously been foreseen and are not specifically covered by the regulations. If this occurs, we hope that you will bring these questions to our attention.

Foreign Investment in the United States

Finally, I would like to comment briefly on the draft bill which the Secretary of the Treasury sent to Congress yesterday relating to foreignors investing in the United States. It is an outgrowth of the report of the so-called "Fowler Task Force" and is intended to remove some of the hardships and complexities in our tax law which have in the past served to prevent foreigners from investing in this country. The major change proposed is a sharp reduction in the hitherto extremely high estate tax payable by foreigners on their United States assets -- a tax which is at present higher than that payable by United States citizens owning a comparable estate. In addition, the draft bill would eliminate unnecessary complexities in the taxation of foreigners' United States source income. These provisions in current law raise very little revenue for the United States and deter investment by foreigners.

We have also included in the draft bill a provision which would permit the President to reimpose higher taxes if he finds that foreign countries in the situations covered by the bill are imposing burdensome taxes on United States investors within their borders and refusing

to reduce those taxes when requested to do so in the course of treaty negotiations. This will both permit initial reduction of taxation of foreigners and at the same time preserve our power to protect our taxpayers with activities or assets abroad.

The changes in our taxation of foreigners just described are not solely designed to improve our balance of payments but are desirable in and of themselves. The time had come for a thorough review of the application of our tax law to foreigners and to their investments here.

Conclusion

In recent years we have been engaged in the task of revising the rules of international taxation affecting not only the foreign income of United States citizens and corporations but also the United States source income of foreigners. This revision was in large part the result of a changing world -- a world of a far greater freedom in international capital movements and of international trade.

This task of revision is now nearing completion. The Revenue Act of 1962 has been enacted and the regulations under it will soon have all been issued. Enforcement activities under section 482, which began to be intensified in 1960, have given us information as to how taxpayers had, in fact, been dealing with their foreign affiliates and indicated to us both the need for clearer rules and

the possible forms those rules might take. This initial enforcement effort caused confusion and some hardship and we have therefore taken steps to ameliorate them in Revenue Procedure 64-54.

The emphasis will now shift from rule making to implementation of the existing rules. Our major problem in the next few years will be to assure that these rules operate effectively and sensibly and to improve them wherever possible by using the knowledge gained through enforcement experience. Some of these rules are novel and complex. We recognize this, and that as a consequence, enforcement will have to be both understanding and flexible. It is toward this end that our efforts over the coming years will be concentrated.

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
INTERNATIONAL FINANCE SUBCOMMITTEE
OF THE BANKING AND CURRENCY COMMITTEE
UNITED STATES SENATE
MARCH 9, 1965, 10:00 A.M.

At the outset of these hearings, it may be useful if I review in a general way the problems that we have faced and the policies that we have followed in dealing with the balance of payments deficit, before describing briefly the Administration's new program. Other witnesses will be commenting in greater detail upon those aspects of the President's ten-point program for which they have specific responsibility. For my own part, I will aim at an over-all view of the progress that we have made to date and the tasks that still lie ahead of us.

Certainly, there is a clear need to achieve prompt and decisive reductions in our balance of payments deficit. That deficit has been with us for too long and it remains far too large. International trade today rests on the foundation of a sound dollar which is essential to the continued growth and stability of the entire Free World. And the maintenance of a sound dollar now demands a quick end to our payments deficit.

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Last year, a swelling tide of private capital outflows joined with other, more special, factors in carrying our deficit on regular transactions to a fourth-quarter annual rate of $5.8 billion. Because of the very real progress we had been making in most areas of our accounts, the deficit on regular transactions for the full year 1964 was held to about $3 billion, the smallest deficit on a comparable basis since 1957. But that is not nearly good enough. We must fully implement President Johnson's ten-point program to assure the rapid and substantial improvement that is required.

BASIC APPROACH TO THE BALANCE OF PAYMENTS PROBLEM

Our underlying approach to the payments deficit has been, from the start, to seek a solution within the framework of a more vigorous domestic economy, operating closer to its full potential and offering improved incentives for investment. Our international competitive position had deteriorated by the late 1950's because of an inadequate rate of new cost-cutting investment coupled with an upward trend in certain key prices that had persisted throughout the decade. Moreover, the slow growth of our economy was enhancing

the relative attractiveness of foreign investment. As a result, the years 1958 through 1960 saw three successive balance of payments deficits that, on the basis of regular transactions, averaged close to $3.9 billion annually.

These large payments deficits certainly could not be attributed to an overstrained economy. In early 1961, we were faced with excessive unemployment, under-utilized manufacturing capacity and a very low rate of economic growth, all of which had to be corrected. We could not seek a deflationary solution to our balance of payments problem by clamping down tightly on money and credit. Quite the opposite, it was essential to spur more rapid growth at home, while finding the solution to our external problems in the rising productivity and improved climate for domestic investment that this growth would bring. This was a new and unique kind of balance of payments problem. Because the standard remedies were inapplicable, a new course had to be charted.

To achieve more rapid economic growth within a framework of stable costs and prices, basic reliance was placed upon tax

reduction and investment incentives. Similar results might, in theory, have been sought through a very active use of monetary policy. But, an extremely easy monetary policy would only have worsened the problem of capital outflows, and so was necessarily ruled out, in spite of the slack in our domestic economy.

Our over-all financial effort -- in both the monetary and debt management areas -- has continually aimed at maintaining our short-term interest rates in reasonable alignment with key rates in foreign money markets. At the same time, growing prosperity has added to the large flows of savings moving into our capital markets, and the long-term interest rates important for domestic investment and residential construction have remained stable or even declined.

We felt, and continue to feel, that a more productive domestic economy is an essential element in any long-range solution to our payments problem. However, in early 1961, it was imperative to seek immediate and substantial reductions in the payments deficit, because the longer-run correctives could not be expected to yield their benefits at once.

Therefore, we undertook a broad array of special measures designed to attack directly the major areas of weakness in our international accounts.

A series of fourteen tables, showing our progress since 1960 and illustrating various other aspects of our balance of payments, is attached as Annex I of this statement.

SPECIAL MEASURES TO ACHIEVE PAYMENTS GAINS

We took vigorous steps to encourage exports, including both an entirely new system of export credit guarantees and vastly improved government information and promotion services for exporters. We drastically reduced the adverse payments impact of government outlays overseas. We eliminated the attraction of foreign tax havens for our private capital, and, in mid-1963, we proposed the Interest Equalization Tax which increased the cost to other industrialized countries of raising funds in our markets through the sale of securities.

All of these measures have demonstrated their effectiveness. Since 1960, our commercial exports have grown by more than one-fourth. While special factors have helped, much of the improvement is attributable to our very impressive record

of cost-price stability while foreign costs and prices were steadily rising. In 1964 alone, our commercial exports increased by $3.0 billion, or 15 percent. This was enough to more than offset the increase in imports which naturally accompanied our expanding economy. It gave us a commercial trade surplus in 1964, omitting all government financed transactions, of $3.7 billion; over $900 million more than in 1960 and $1.4 billion more than in 1963.

In our aid program, we have adopted a rigorous policy of tying our assistance, and over 85 percent of new AID commitments are now tied to U.S. goods and services. As a result of this policy, the adverse effect of AID expenditures on the balance of payments has been cut in half since 1960. In 1960, out of gross expenditures of $1.7 billion under the Foreign Assistance Act, over $1 billion resulted in dollar payments abroad; in 1964, out of gross expenditures of $2 billion, dollar payments abroad were down to about $500 million.

The cost of maintaining our military posture abroad of course involves a major drain in our balance of payments. The task both Presidents Kennedy and Johnson set was to get this drain down to an irreducible minimum. Three principal

methods have been used to do this: streamlining and adjusting overseas operations with savings in both military and civilian manpower, returning procurement to the United States and making offsetting sales of U.S. military equipment.

By streamlining operations and cutting procurement, the Department of Defense expects to come close to achieving President Kennedy's objective, set in July of 1963, of trimming gross Defense expenditures abroad by $300 million between 1962 and 1965. This will be the case even though sharply rising prices abroad have canceled out a goodly portion of the savings that have been effected. Because of savings in the overseas procurement of uranium, over-all defense expenditures in 1964 were nearly $250 million lower than in 1960 and should go lower still this year as a result of economies already effected.

It is in the third area of action, military sales to other countries, where the most impressive results in dollar terms have been achieved. Beginning in 1961, with the views of Congress very much in mind, military assistance programs were increasingly shifted from grant aid to sales, and financed at market interest rates instead of zero percent. The Departments

of Treasury and Defense undertook a major effort to maximize sales of U.S. military equipment. As a result, the export efforts of the American defense industry have been greatly strengthened. Our Export-Import Bank has cooperated in this new field; private banks are becoming interested; and, last year, the Congress wisely authorized the Department of Defense to issue guarantees under which many additional nations are able to finance military purchases in the United States.

The results of this program have been striking. Cash receipts from sales of military equipment rose from approximately $300 million in 1960 to over a billion dollars during each of the years 1962, 1963, and 1964. An outstanding example of cooperation by an allied government is the agreement of the Federal Republic of Germany to buy military equipment from the United States in amounts equivalent to U.S. military dollar expenditures in Germany affecting the balance of payments. Recent examples of major military sales are the arrangements with the United Kingdom and Australia for purchases of U.S. military equipment totaling about one billion dollars.

The net effect of these various programs has been to reduce our actual net defense dollar-outlays abroad from over $2.7 billion in 1960 to a little over $1.6 billion in 1964 -- a most gratifying result. The outstanding success of this effort has not been fully appreciated, since, on a regular transactions basis as shown in our official balance of payments statistics, the 1964 figure for net defense expenditures was just over $2 billion. This difference between the actual results of our efforts in the defense area and our official statistics arises for two reasons. First, because military sales are recorded in our balance of payments on a delivery basis with no credit for progress payments actually received; and,second, because such of our sales of military equipment as pass through commercial channels are included in our commercial export figures rather than in the military accounts.

PROGRESS SINCE 1960 AND THE CAPITAL OUTFLOW PROBLEM

The extent of our over-all progress and the problems we still face can be highlighted by comparing last year's balance of payments results with those of 1960, as shown in Table 4 of Annex I. Last year our commercial trade balance

had improved $900 million relative to 1960 and cuts in government overseas dollar expenditures, military and nonmilitary, of $1.1 billion had been achieved. Along with an increase of $1.5 billion in our net receipts of private investment income, the full improvement relative to 1960 added up to a massive $3.5 billion.

This would have been enough, all else aside, to have brought our payments close to balance last year. But, over the same period of time, the outflow of private capital rose by $2.3 billion, with $1.9 billion of this increase occurring in 1964 alone, when the total outflow of U.S. private capital soared to well over $6 billion.

This marked a return to private capital outflows matching the scale of the second quarter of 1963, when the outpouring of funds was particularly heavy in the long-term portfolio capital area. Therefore, the Interest Equalization Tax was proposed in mid-July of 1963 with highly successful results. In 1964, net sales of foreign securities to Americans were less than $700 million, one-third the rate in the six months prior to the IET and virtually the same as the outflow four years ago.

But, in areas uncovered by the IET, capital outflows in 1964 were inordinately large. The expansion of long-term bank loans last year amounted to more than $900 million -- almost $800 million above 1960 and about $300 million above 1963. At the same time, short-term bank credits rose by $1.5 billion in 1964, $500 million more than in 1960, and $750 million more than in 1963. In 1964, other short-term capital outflows, much of which represent temporary investment of corporate funds, were $200 million more than in 1960 and $500 million above 1963 despite our relatively successful efforts to keep our domestic money-market rates in line with those abroad.

Direct investment abroad by American companies -- for the most part in Canada and Europe -- rose to $2.2 billion and exceeded the 1960 rate by more than $500 million and the 1963 rate by more than $300 million. A rise of about $300 million in other long-term capital outflows over the level of 1960 accounts for the remainder of the increase of $2.3 billion that has done so much to thwart our efforts to achieve balance.

There have been many signs of a further step-up in the already rapid pace of U.S. corporate investment in Europe.

In the past four years, it is reported that there have been 2,500 new ventures in Europe by U.S. firms. Increasingly large sums have been spent as U.S. firms have bought into existing European enterprises. There is no question that U.S. investment in Europe is highly desirable, and we welcome a return flow of European investment here. But, the question necessarily arises as to how rapid a pace of new foreign investment we can afford at a time when our over-all payments gap is so large.

Alongside these swelling capital outflows, American travel and tourist spending abroad last year was about $600 million higher than in 1960 -- 2-1/2 times the corresponding rise in foreign travel outlays in this country. Thus, our travel deficit has grown by $350 million since 1960 and last year stood at over $1.6 billion.

As a result of all these factors, our balance of payments deficit last year -- in terms of regular transactions -- was $3 billion, an improvement of only $900 million over 1960. We must do much better.

DEFICITS AND FOREIGN DOLLAR HOLDINGS

We fully recognize that the private capital outflows that today are preventing the achievement of balance will eventually

come back to us in the form of dividends, interest and loan repayments. But the need is to bring our accounts into balance now, not at some indeterminate time in the distant future. To insure success, all areas of our payments must make their contribution. Consequently, to complement our success in improving other areas of our payments, we must now hold our outflows of private capital to levels that are consistent with the early achievement of equilibrium. Clearly, capital outflows surged well beyond those levels last year.

But while we must moderate our private capital outflow in view of the paramount national interest in achieving early equilibrium in our international payments, we must not forget that these outflows acquire valuable assets. Our net international creditor position is extremely large. Leaving aside all U.S. government claims on foreigners, our private investments abroad, by themselves, exceed the total of foreign investment in the U.S. plus all other liabilities to foreigners by some $18 billion, and this figure is growing larger every year. This strong financial position is buttressed by our impressive ability to compete in world markets. Our commercial trade

surplus is far and away the world's largest. Last year it was more than twice the size of West Germany's -- the next largest.

Building on these solid elements of strength, there is ample justification for confidence in the future of the dollar. But the time has come when we must bring our balance of payments deficit to an early end and curtail the constant build-up of short-term liquid liabilities to foreigners. Of our total liabilities, the International Monetary Fund holds approximately $3 billion received in connection with the U.S. subscription to that institution, and these dollars do not of course represent a claim on our gold stock. Omitting the IMF holdings, foreign dollar holdings now amount to about $28 billion, roughly half of which is held by foreign governments and central banks and thus represents a direct claim upon our gold stock; the other half is held by private foreign banks, businesses, individuals and nonmonetary international institutions.

Indeed, more than half of last year's $3.0 billion deficit was financed by an increase in private holdings of dollars, acquired voluntarily for commercial and other purposes. But, as our balance of payments deficit is now calculated, it makes

no difference whether the increase in liquid dollar claims is held by foreign official institutions or by private holders and nonmonetary international institutions. If private dollar holdings were not counted as part of the balance of payments deficit but rather as a capital inflow -- a method which parallels the course followed by other major countries -- our balance of payments last year would have shown a deficit of only $1.3 billion, a $1 billion improvement over the 1963 deficit calculated on the same basis, as shown in Table 14 of Annex I.

But, whatever way we calculate our deficit, further action is clearly required to speed up our progress toward equilibrium. Only by demonstrating that we are moving decisively in this direction can we insure that foreigners will continue to be willing to hold their large dollar balances.

In addition, we can and should encourage the continued investment of foreign official funds in this country by extending the exemption from regulatory ceilings of the interest rates that our commercial banks can pay on time deposits of foreign governments and monetary authorities and certain international institutions. This exemption, originally enacted in October 1962,

has proved its value in reducing calls on our gold stock. As matters stand, our banks have no authority to pay higher rates beyond next October. I urge approval of legislation to continue this exemption when, in due course, the matter is considered by your Committee.

PRESIDENT JOHNSON'S TEN-POINT PROGRAM

The pressing need at this time is to proceed promptly with the elimination of our deficit. Therefore, the President has called upon the American businessman, upon the American banker, and indeed upon all Americans to join in a truly national effort to stem the outpouring of dollars abroad.

The President's program calls for a redoubling of our efforts to cut government expenditures abroad and to expand exports. To narrow the tourist deficit, legislation is being requested to further limit the duty exemption for American tourists. Americans, as well as foreigners, are being encouraged to travel more in this country. In order to draw more investment from abroad, the President has requested new tax legislation to remove barriers to foreign investment in U.S. corporate securities.

The President has imposed the Interest Equalization Tax on bank loans of one year or more under the authority of the

Gore Amendment and is requesting legislation to extend the IET through 1967, and to broaden its coverage to nonbank credit of one to three-year maturity.

But the most significant element of the new program is not new legislation, important as that is, but rather the President's action to enlist the voluntary but vigorous cooperation of the business and banking community in cutting back sharply on the increasing outflow of dollars abroad. It is to this cooperative effort that we look for the greatest savings and the quickest results.

A week after the President's Balance of Payments Message was sent to the Congress, the President, together with Secretary Connor, Chairman Martin and I, described our balance of payments situation to a group of distinguished business and financial leaders and outlined the nature of this voluntary program. I am sure they will respond to the challenge quickly and effectively.

The banks are being asked to hold their 1965 increase in foreign credits outstanding to 5 percent of the end-of-1964 level. A set of 14 guidelines, developed by the Board of

Governors of the Federal Reserve System and published yesterday sets forth procedures for implementing this program. These guidelines are designed so as to assure that needs for export credits and loans to less developed countries will be met. This means that, over the coming months, bank loans to Western Europe will have to be reduced substantially. Within these general guidelines, it has been left up to each bank to decide how to direct its own activities.

Concrete evidence of the prompt cooperation of the banks is revealed in the data we receive on their new commitments for loans of one year or more. These commitments to borrowers in developed countries totaled over $1.0 billion in the full year 1964. And, this year, in the period prior to the President's Message on February 10, commitments to developed countries amounted to about $500 million, of which some $180 million was for advance extensions of loans beyond their original 1966-67 maturity dates. But since February 10, reports of new loan commitments to borrowers from the developed countries have been negligible in amount -- well under $5 million.

A somewhat similar approach is being followed in the case of the foreign lending and investing activity of nonbank financial institutions. However, in the case of these institutions, there are no guidelines for securities with final maturities of over five years, since that area is effectively covered by the Interest Equalization Tax and by separate agreements governing the access of Canada and Japan to our capital markets.

Industrial corporations are also being asked to improve their individual balance of payments accounts. This means that companies whose earnings from abroad in the form of exports, dividends, royalties, fees, etc., have exceeded their capital outflows from the U.S. should strive to increase this surplus. Companies which had a deficit on these items should strive to reduce that deficit or turn it into a surplus. The prospects for the success of the President's program in the corporate area have been greatly enhanced by evidence that the nation's top corporate executives are willingly assuming personal responsibility for their own company programs. In the corporate, as well as the financial areas of the President's program, there

is to be no change in our over-all policy of encouraging investment in the less developed countries. A personal letter detailing what is expected will be sent later this week by the Secretary of Commerce to the heads of about 500 corporations, including all which are active abroad.

It would, however, be a mistake to expect the full impact of the program of voluntary restraint to be registered overnight. Data are still far too fragmentary to reveal whether or not the deficit for the first quarter will fall back to the levels characteristic of the first three quarters of last year. The information currently available to us, limited and incomplete as it is, suggests appreciable improvement over the fourth-quarter results and provides no basis whatsoever for the occasional rumors of a vastly enlarged first-quarter deficit.

The impact of the new program can also be seen in the current increase in Eurodollar rates, which indicates a decline in the supply of dollars in that market. Finally, the dollar has begun to strengthen significantly in the world's foreign exchange markets. All in all, it appears that we are off to a good start.

Since the President's new balance of payments program was not developed until mid-February, the complete first-quarter results, which will not be known until May, are likely to include some crosscurrents, with the favorable results of the new program only incompletely reflected in the over-all total. But certainly by the second, and more fully by the third quarter of this year, we should be reaping very substantial dividends from the measures contained in the President's program.

What distinguishes all those measures -- and the President's Message, itself -- is the degree to which their success will draw upon the voluntary cooperation and support of American business and the American public. The President has set forth, for all to understand, the challenge that confronts us. Upon the response to this challenge rests the solution to a stubborn and difficult problem. I am confident that challenge will be met.

ANNEX I

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TABLE 1

U.S. BALANCE OF PAYMENTS: BALANCE ON REGULAR TRANSACTIONS AND CHANGES IN U.S. GOLD STOCK 1946 - 1964

(In millions of dollars)

Year	Balance on Regular Transactions (-deficit)	Change in U.S. Gold Stock (-decrease)
1946	1,261	623
1947	4,567	2,162 1/
1948	1,005	1,530
1949	175	164
1950	-3,580	-1,743
1951	-305	53
1952	-1,046	379
1953	-2,152	-1,161
1954	-1,550	-298
1955	-1,145	-41
1956	-935	306
1957	520	798
1958	-3,529	-2,275
1959	-4,178	-1,075 1/
1960	-3,918	-1,702
1961	-3,071	-857
1962	-3,605	-890
1963	-3,261	-461
1964	-3,006	-125

1/ Includes subscription payment in gold to International Monetary Fund of $688 million in 1947 and $344 million in 1959.

Treasury Department
Office of Balance of Payments Programs, Operations and Statistics
March 6, 1965

BALANCE OF PAYMENTS OF THE UNITED STATES*
1946 - 1964

TABLE 2

(In millions of dollars)

Year	Non-Military Merchandise Surplus	Net Services Remittances & Pensions	Military Expenditures Gov't Grants & Capital 1/	Private Long-term Capital Net	Net Private Short-term Capital plus Errors & Omissions	Bal. on Regular Transactions	Spec. Gov't Transactions 2/	Overall Balance	Sales of Spec. Fgn. Cur. Bonds	Balance Incl. Sales of Spec. Fgn. Cur. Bonds	Memo. Change in Total Gold Stock (-Decrease)
1946	6,634	978	-5,786	-450	-115	1,261	-	1,261	-	1,261	623
1947	10,036	1,233	-6,576	-896	770	4,567	-	4,567	-	4,567	2,162 3/
1948	5,630	992	-5,717	-962	1,062	1,005	-	1,005	-	1,005	1,530
1949	5,270	870	-6,270	-621	926	175	-	175	-	175	164
1950	1,009	823	-4,216	-1,048	-148	-3,580	-	-3,580	-	-3,580	-1,743
1951	2,921	1,563	-4,461	-740	412	-305	-	-305	-	-305	53
1952	2,481	1,254	-4,434	-900	553	-1,046	-	-1,046	-	-1,046	379
1953	1,291	901	-4,478	-322	456	-2,152	-	-2,152	-	-2,152	-1,161
1954	2,445	1,228	-4,014	-713	-496	-1,550	-	-1,550	-	-1,550	-298
1955	2,753	1,372	-4,912	-674	316	-1,145	-	-1,145	-	-1,145	-41
1956	4,575	1,515	-5,150	-1,961	86	-935	-	-935	-	-935	306
1957	6,099	1,769	-5,415	-2,902	969	520	-	520	-	520	798
1958	3,312	1,307	-5,722	-2,552	126	-3,529	-	-3,529	-	-3,529	-2,275
1959	972	1,176	-4,791	-1,589	489	-4,178	435	-3,743	-	-3,743	-1,075 3/
1960	4,736	1,156	-5,493	-2,107	-2,210	-3,918	37	-3,881	-	-3,881	-1,702
1961	5,416	2,017	-5,948	-2,177	-2,379	-3,071	701	-2,370	-	-2,370	-857
1962	4,442	2,271	-5,939	-2,609	-1,770	-3,605	1,402	-2,203	-	-2,203	-890
1963	4,993	2,104	-6,022	-3,244	-1,092	-3,261	617	-2,644	702	-1,942	-461
1964 P	6,511	n.a.	n.a.	n.a.	n.a.	-3,006	243	-2,763	375	-2,388	-125

*Excludes grant-financed military supplies and services. 1/ Excluding military and debt prepayments.
2/ Excluding sales of non-marketable convertible medium term foreign currency government securities. P - [illegible]
3/ Includes subscription payment in gold to International Monetary Fund of $688 million in 1947 and $344 million in 1959.
SOURCE: 1946-59, Balance of Payments Statistical Supplement, U.S. Dept. Commerce
1960-64, Survey of Current Business, Preliminary Report for 1964, U.S. Department of Commerce

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TABLE 3

U.S. Balance of Payments, 1960 - 1964[1]
(Millions of dollars)

	1960	1961	1962	1963	1964 (Est.)
Commercial merchandise exports[2]	17.5	17.7	18.2	19.3	22.3
Commercial merchandise imports	-14.7	-14.5	-16.1	-17.0	-18.6
Commercial trade balance	2.8	3.2	2.1	2.3	3.7
Tourism (net)	-1.3	-1.3	-1.5	-1.6	-1.6
Private investment income (net)	2.3	2.9	3.2	3.2	3.8
Other services, remittances and pensions (net)[2]	-0.2	-	0.1	-	-
Commercial balance	3.7	4.8	3.8	3.8	5.9
Military expenditures (net)[3]	-2.7	-2.6	-2.4	-2.2	-2.1
Gov't. grants and capital payments abroad	-1.1	-1.1	-1.1	-0.9	-0.7
Receipts from debt repayments to U.S. Gov't.[4]	0.5	0.5	0.5	0.5	0.6
U.S. Private capital	-3.9	-4.3	-3.5	-4.3	-6.2
Direct investment	-1.7	-1.6	-1.7	-1.9	-2.2
Foreign securities	-0.7	-0.8	-1.0	-1.1	-0.7
Long-term bank credits[5]	-0.2	-0.1	-0.1	-0.7	-0.9
Other long-term	-	-0.1	-0.1	0.2	-0.4
Short-term bank credits	-1.0	-1.2	-0.4	-0.8	-1.5
Other short-term	-0.4	-0.4	-0.2	-	-0.5
Foreign capital	0.3	0.6	0.2	0.3	0.5[6]
Errors and omissions	-0.8	-1.0	-1.1	-0.3	-1.0
Balance on regular transactions	-3.9	-3.1	-3.6	-3.3	-3.0

1/ Excluding military transfers under grants.
2/ Excluding exports and services financed by Government grants and capital.
3/ Excluding advances on military exports.
4/ Excluding prepayments and fundings.
5/ Includes small amounts of bank claims other than loans; and in 1963 approximately $150 million in "take-overs" by banks of foreign claims from U.S. commercial firm.
6/ Includes $204 million in Canadian gov't. purchases of non-marketable medium-term U.S. gov't. securities.

Note: Figures may not add to totals due to rounding.

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TABLE 4

SELECTED SEGMENTS OF U.S. BALANCE OF PAYMENTS, 1960, 1963, 1964
(Billions of Dollars)

	1960	1963	1964(est.)	Improvement (+) 1960-64(est.)	1963-64(est.)
Commercial trade surplus	2.8	2.3	3.7	+0.9	+1.4
Military expenditures (net)	-2.7	-2.2	-2.1	+0.7	+0.2
Govt. grants & capital payments abroad	-1.1	-0.9	-0.7	+0.4	+0.2
Private Investment income (net)	2.3	3.2	3.8	+1.5	+0.6
Sub-total	1.3	2.3	4.7	+3.5	+2.4
Tourism (net)	-1.3	-1.6	-1.6	-0.3	--
U.S. Private capital	-3.9	-4.3	-6.2	-2.3	-1.9
All other items	-0.1	0.4	0.1	+0.1	-0.3
Balance on regular transactions	-3.9	-3.3	-3.0	+0.9	+0.3

Note: Figures may not add due to rounding.

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UNITED STATES GOLD STOCK AND CONVERTIBLE FOREIGN CURRENCY HOLDINGS, AND FOREIGN DOLLAR HOLDINGS, SELECTED YEARS
(In Millions of Dollars)

End of Period	U.S. Gold Stock	U.S. Holdings of Convertible Foreign Currencies	Foreign Dollar Holdings[1/]: Total	Foreign Dollar Holdings[1/]: Foreign Countries	Foreign Dollar Holdings[1/]: International and Regional Organizations[2/]
1945	20,083	-	6,883[3/]	6,883[3/]	-
1949	24,563	-	8,226	6,409	1,817
1957	22,857	-	16,600	14,861	1,739
1960	17,804	-	23,598	18,686	4,912
1961	16,947	116	25,371	20,187	5,184
1962	16,057	99	27,129	21,073	6,056
1963	15,596	212	28,680	22,825	5,855
1964 p	15,471	432	31,164	25,289	5,875

1/ Short-term dollars and marketable U.S. Government bonds and notes.

2/ Includes dollar holdings of Int. Mon. Fund, ($3356 million at end of 1964, largely in the form of non-negotiable, non-interest-bearing notes, plus proceeds of $800 million of gold sales by the Fund to the U.S.) Excludes non-negotiable, non-interest-bearing notes held by International Development Association and Inter-American Development Bank.

3/ Short-term only; data not available on foreign holdings of marketable U.S. Government bonds and notes.

p. Preliminary.

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TABLE 6

Estimated Gold Reserves and Liquid Dollar Holdings of Foreign Countries and International Organizations[1/]

(In millions of dollars)

Area	June 30, 1945	Dec. 31, 1960	Sept. 30, 1964	Dec. 31, 1964 P
TOTAL, FOREIGN COUNTRIES	19,302	38,946	48,790	n.a.
Total, Western Europe	10,532	25,946	32,082	n.a.
Belgium	857	1,314	1,821	1,887
France	2,265	2,165	5,100	5,392
Germany	7	6,450	6,438	6,257
Italy	61	3,080	3,226	3,728
Netherlands	483	1,783	1,968	2,055
Switzerland	1,509	2,957	3,731	4,093
United Kingdom	2,702	4,887	4,624	n.a.
Other	2,648	3,310	5,174	n.a.
Canada	1,606	3,770	4,558	4,696
Total, Latin American Reps.	3,625	3,533	4,170	n.a.
Venezuela	216	800	1,076	1,130
Other	3,409	2,733	3,094	n.a.
Total, Asia	2,256	4,446	6,068	n.a.
Japan	210	2,137	2,852	2,967
Other	2,046	2,309	3,216	n.a.
Total, Other Countries	1,283	1,251	1,912	n.a.
INTERNATIONAL AND REGIONAL	-	7,351	8,422	8,053

P - Preliminary. n.a. - Not available.

1/ Includes official gold reserves, and official and private holdings with banks in the U.S. of short-term dollar assets and U.S. Government bonds and notes, except for non-marketable U.S. Treasury notes, foreign series, and U.S. Treasury bonds, foreign currency series, which are excluded. U.S. Government bonds and notes are included in this table beginning with 1960 since data on these holdings are not available prior to December 31, 1949. Gold reserves of U.S.S.R., other Eastern European countries, and China Mainland are excluded.

TABLE 7

GOLD HOLDINGS OF FREE WORLD COUNTRIES AND INTERNATIONAL ORGANIZATIONS
(In millions of U.S. dollars)

	As of Sept. 30, 1964	As of Dec. 31, 1964
United States	15,643	15,471
United Kingdom	2,302	n.a.
Continental Europe(developed) - Total	16,245	16,860
Austria	592	600
Belgium	1,395	1,451
Denmark	92	92
France	3,565	3,729
Germany	4,149	4,248
Italy	2,104	2,107
Netherlands	1,601	1,688
Norway	31	31
Sweden	182	189
Switzerland	2,532	2,725
Canada	990	1,026
Japan	290	n.a.
All other countries	5,031	n.a.
All Countries	40,501	n.a.
International Organizations 1/	2,519	n.a.
Grand Total:	43,020 e	n.a.

n.a. Not Available. e Estimated.

1/ Includes International Monetary Fund, European Fund, and Bank for International Settlements

Note: Detail may not add to totals because of rounding.

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TABLE 8

U. S. PRIVATE CAPITAL OUTFLOW, 1964
(-outflow, + inflow) (In Millions of Dollars)

	Direct Investment	Foreign Securities	Other Long Term	Short Term	Total
All Countries, 1964 entire year	-2.2	-0.7	-1.3	-2.0	-6.2
All Countries, Jan-Sept.,1964	-1.5	-0.2	-0.8	-1.4	-3.9
Developed Countries, Total	-1.2	-0.1	-0.7	-0.9	-2.9
Canada	-0.1	-0.2	-0.3	-0.3	-0.9
Western Europe 1/	-0.9	+0.1	-0.3	-0.3	-1.4
Japan	-0.1	--	-0.1	-0.3	-0.5
Australia, New Zealand and South Africa	-0.1	--	--	--	-0.1
Less Developed Countries, total	-0.3	-0.1	-0.1	-0.5	-1.0

1/ Including Finland, Greece, Iceland, Ireland, Portugal, Turkey and Yugoslavia.

Source: Survey of Current Business, December 1964, for the first three quarters

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TABLE 9

U. S. Long-Term Private Capital Outflows and Income

1960 - 1964
(Millions of Dollars)

	1960	1961	1962	1963	1964(est)
Direct investment					
Capital outflows	-1674	-1599	-1654	-1888	-2200
Investment income	2355	2767	3050	3072	3600
Balance	681	1168	1396	1184	1400
Foreign Securities and Other long-term					
Capital outflows	-863	-1025	-1227	-1685	-1956
Investment income	405	476	538	617	730
Balance	-458	-549	-689	-1068	-1226
Total					
Capital outflows	-2537	-2624	-2881	-3573	-4156
Investment income	2760	3243	3588	3689	4330
Balance	223	619	707	116	174

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TABLE 10

UNITED STATES INTERNATIONAL INVESTMENT POSITION END-SELECTED YEARS

(In billions of dollars)

	1946	1958	1959	1960	1961	1962	1963
U.S. assets and investments abroad, total	18.7	58.7	62.7	68.9	75.0	80.3	88.2
Private investments	13.5	41.1	44.8	50.3	55.5	60.0	66.4
Direct	7.2	27.4	29.8	32.8	34.7	37.2	40.6
Other long term	5.0	10.2	11.4	12.6	14.3	15.5	17.6
Short term	1.3	3.5	3.6	4.9	6.5	7.3	8.1
U.S. Government credits and claims	5.2	17.5	17.9	18.5	19.5	20.3	21.8
Foreign assets and investments in the U.S. total	15.3	34.4	39.1	41.2	46.0	46.3	51.5
Private obligations	12.3	27.3	28.9	30.5	34.8	33.6	37.8
Long term	7.0	16.4	18.1	18.4	21.4	20.2	22.8
Short term	5.3	10.9	10.9	12.1	13.4	13.3	14.9
U.S. Government obligations 1/	3.0	7.1	10.2	10.6	11.2	12.7	13.8

NOTE: Detail may not add to totals because of rounding.

1/ Mainly foreign holdings of U.S.Government securities; also includes Export-Import Bank Certificates, non-interest bearing notes for subscriptions to international organizations (excl. IMF) and advances for military exports.

Source: U.S. Department of Commerce
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TABLE 11

OUTSTANDING UNITED STATES DIRECT INVESTMENT IN EUROPE

AND

EUROPEAN DIRECT INVESTMENT IN THE UNITED STATES

(Millions of Dollars)

	By Europe in the United States as of December 31, 1963	By the United States in Europe as of December 31, 1963
United Kingdom	2,665	4,216
Belgium	161	351
France	182	1,235
Germany	149	1,772
Italy	102	668
Netherlands	1,134	445
Sweden	185	220
Switzerland	825	668
Other European Countries	89	776
Total:	5,491	10,351

Source: Survey of Current Business, August 1964.

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TABLE 12

U. S. PRIVATE BANKING CLAIMS ON FOREIGNERS
(Millions of Dollars)

	Increases			Amount Outstanding
	1962	1963[2/]	1964	Dec.31,1964
All Countries, Total	465	1,232	2,296	10,380
Short-term[1/]	338	641	1,354	6,409
Long-term	127	591	942	3,971
Developed Countries, Total	380	965	1,412	6,277
Short-term[1/]	264	464	741	4,035[1/]
Long-term	116	501	671	2,242
Less Developed Countries, Total	85	267	884	4,103
Short-term[1/]	74	177	613	2,374[1/]
Long-term	11	90	271	1,729

1/ Excluding collections, which increased by $175 million during 1964 and amounted to $1,007 million as of December 31, 1964.

2/ The long-term total of $591 million (which includes both long-term loans and other long-term claims) compares with $739 million in the Commerce Department published figures which also include approximately $150 million of commercial bank "takeovers" of claims on foreigners from U.S. business firms.

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TABLE 13

CLAIMS ON FOREIGNERS BY U. S. BANKS

As of December 31, 1964

(In Millions of Dollars)

	Outstanding 12-31-64
Total claims reported by banks*	$10,380
Short-term*	6,409
Dollar Claims:	
Loans	2,652
Acceptance Credits	2,600
Other Dollar Claims	552
Foreign Currency Claims:	605
Long-Term Banking Claims	3,971
Loans	3,777
Other	195

Note: Details may not add to totals because of rounding.

*Excluding collection items.

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ANNEX II

The following material is supplied for the record in response to a request by Senator Wallace F. Bennett that information on seven specific points be furnished for the hearings of the International Finance Subcommittee of the Senate Banking and Currency Committee, March 9, 1965.

1) <u>The volume of counterpart funds still available by countries</u>.

The attached table sets forth latest complete analysis of balances of foreign currencies acquired without payment of dollars from all sources, including PL 480 Title I receipts, dated June 30, 1964.

"Excess currency" country balances are segregated at the top of the page. "Excess currencies" are the currencies of countries for which the Treasury Department determines (after reviewing the availabilities and prospective uses) that the supply is great enough to more than cover requirements for the next two or three years. Indonesia is not an excess currency for FY 1965 and was removed from the list as of July 1, 1964. Guinea was added to the excess currency country list by BOB memorandum dated February 25.

Table 15 -- ANALYSIS OF BALANCES OF FOREIGN CURRENCIES, ACQUIRED WITHOUT PAYMENT OF DOLLARS, JUNE 30, 1964

(In U. S. dollar equivalents, cents omitted)

COUNTRY	UNIT OF CURRENCY	AVAILABLE FOR U.S. USE			AVAILABLE FOR COUNTRY USE 3/	TOTAL AVAILABLE
		RESTRICTED 1/	NON-RESTRICTED 2/	TOTAL		
Excess Currency Countries: 4/						
• Burma	Kyat	39,855	11,462,601	11,502,457	25,579,897	37,082,354
India	Rupee	20,216,069	5/ 371,811,125	392,027,194	587,708,385	979,735,580
Indonesia 6/	Rupiah	110,215	4,528,319	4,638,534	27,516,416	32,154,951
Israel	Pound	9,406	7/ 31,726,707	31,736,114	38,694,739	70,430,853
Pakistan	Rupee	2,747,010	8/ 106,971,282	109,718,293	75,147,907	184,866,201
• Poland	Zloty	13,114	489,930,580	489,943,695	—	489,943,695
United Arab Republic	Pound	2,638,833	75,876,447	78,515,281	163,732,428	242,247,709
Yugoslavia	Dinar	112,303	9/ 47,860,529	47,972,833	242,133,102	290,105,936
Total Excess Currency Countries		25,886,809	1,140,168,116	1,166,054,926	1,160,512,878	2,326,567,804
Non-Excess Currency Countries: 10/						
Afghanistan	Afghani	—	8,597	8,597	1,278,504	1,287,101
Argentina	Peso	515	124,718	125,233	104,182	229,415
Australia	Pound	1,707	123,651	125,358	—	125,358
Austria	Schilling	22,279	144,632	166,912	13,372	180,285
Belguim	Franc	185,419	667,905	853,324	—	853,324
Bermuda	Pound	421	—	421	—	421
Bolivia	Peso	2,905	444,683	447,589	5,550,939	5,998,528
Brazil 11/	Cruzeiro	19,838	6,531,549	6,551,388	52,163,057	58,714,445
Cambodia	Riel	5,987	—	5,987	343,874	349,862
Canada	Dollar	—	157,175	157,175	—	157,175
Ceylon	Rupee	75,208	2,364,950	2,440,158	12,760,744	15,200,902
Chile	Escudo	1,166	476,870	478,036	1,453,688	1,931,724
China	Dollar	110,674	9,657,805	9,768,479	28,016,629	37,785,109
Colombia	Peso	7,123	2,316,872	2,323,995	1,211,108	3,535,104
Congo	Franc	22,476	1,216,526	1,239,002	9,654,811	10,893,814
Costa Rica	Colon	—	—	—	47,160	47,160
Cyprus	Pound	917	219,315	220,232	1,132,540	1,352,773
Czechoslovakia	Koruna	1,032	—	1,032	—	1,032
Denmark	Krone	148,925	—	148,925	—	148,925
Ecuador	Sucre	5,363	43,991	49,355	811,597	860,953
El Salvador	Colon	—	—	—	—	—
Ethiopia	Dollar	177,358	710,430	887,788	976,049	1,863,837
Finland	New Markka	4,552	2,583,966	2,588,518	2,439,563	5,028,082
France	Franc	2,273,328	428,171	2,701,499	58,945	2,760,444
Germany	W.D. Mark	62,621	—	62,621	7,759,940	7,822,561
Germany	E.D. Mark	2,584	—	2,584	—	2,584
Ghana	Pound	1,493	—	1,493	—	1,493
Greece	Drachma	134,354	5,704,905	5,839,259	19,522,915	25,362,175
Guatemala	Quetzal	—	106,883	106,883	130,553	237,436
Guinea	Franc	1,533	2,807,601	2,809,134	12,147,042	14,956,176
Haiti	Gourde	—	—	—	—	—
Honduras	Lempira	—	555,294	555,294	—	555,294
Hong Kong	Dollar	10,179	901,015	911,194	—	911,194
Hungary	Forint	15,096	—	15,096	—	15,096
Iceland	Krona	544,445	135,377	679,823	351,567	1,031,390
Iran	Rial	5,498	3,967,633	3,973,131	13,031,680	17,004,812
Iraq	Dinar	315	—	315	—	315
Ireland	Pound	1,694	—	1,694	—	1,694
Italy	Lira	78,462	154,449	232,912	3,636,391	3,869,303
Jamaica	Pound	28	4,618	4,647	—	4,647
Japan	Yen	27,259,659	815,565	28,075,224	—	28,075,224
Jordan	Dinar	1,738	—	1,738	—	1,738
Kenya	E.A. Shilling	629	—	629	—	629
Korea	Won	54,278	1,702,970	1,757,249	12,817,857	14,575,106
Laos	Kip	249	—	249	690,406	690,656
Lebanon	Pound	2,717	301,127	303,844	—	303,844
Libya	Pound	646	201,752	202,398	447,203	649,601
Malaysia	Dollar	4,100	21,493	25,593	—	25,593
Mali	Franc	20,040	—	20,040	20,625	40,666
Mexico	Peso	4,622	2,040,399	2,045,021	55,560	2,100,582
Morocco	Dirham	3,443	2,492,814	2,496,257	15,340,924	17,837,181
Nepal	N.Rupee	—	57,711	57,711	—	57,711
Netherlands	Guilder	65,739	653,292	719,031	878,192	1,597,223
New Zealand	Pound	709	110,193	110,903	—	110,903
Nicaragua	Cordoba	28,521	—	28,521	—	28,521
Nigeria	Pound	24,922	200,800	225,723	—	225,723
Norway	Krone	3,741	347,621	351,363	—	351,363
Paraguay	Guarani	—	907,086	907,086	5,351,277	6,258,364
Peru	Sol	525,240	50,470	575,711	6,928,260	7,503,971
Philippines	Peso	54,547	99,032	153,579	13,485,926	13,639,505
Portugal	Escudo	39,232	557,650	596,882	—	596,882
Rhodesia, Southern	Pound	—	—	—	16,343	16,343

See footnotes on page 4

Table 15 -- ANALYSIS OF BALANCES OF FOREIGN CURRENCIES, ACQUIRED WITHOUT PAYMENT OF DOLLARS, JUNE 30, 1964 - (Continued)

(In U. S. dollar equivalents, cents omitted)

COUNTRY	UNIT OF CURRENCY	AVAILABLE FOR U.S. USE			AVAILABLE FOR COUNTRY USE	TOTAL AVAILABLE
		RESTRICTED	NON-RESTRICTED	TOTAL		
Non-Excess Currency Countries: - Continued						
Senegal	C.F.A. Franc	1,485	----------	1,485	----------	1,485
Sierra Leone	W.A. Pound	----------	195,326	195,326	4,175	199,502
Somali	S. Shilling	----------	----------	----------	3,882	3,882
South Africa	Rand	48	----------	48	----------	48
Spain	Peseta	5,485	631,047	636,533	18,648,833	19,285,366
Sudan	Pound	1,632	507,297	508,929	7,990,913	8,499,843
Sweden	Krona	735	711,352	712,088	----------	712,088
Switzerland	Franc	9,353	3,279,394	3,288,747	----------	3,288,747
Syrian Arab Republic	Pound	668,290	1,535,789	2,204,079	17,949,779	20,153,859
Thailand	Baht	12,812	----------	12,812	1,699,374	1,712,187
Togo	C.F.A. Franc	----------	7,415	7,415	----------	7,415
Tunisia	Dinar	1,139	3,774,166	3,775,305	10,450,262	14,225,567
Turkey	Lira	1,575,673	19,607,588	21,183,262	41,858,076	63,041,339
United Kingdom	Pound	12,654,444	1,004,514	13,658,959	4,630,195	18,289,154
Uruguay	Peso	668,774	787,500	1,456,274	368,563	1,824,838
Venezuela	Bolivar	----------	308,774	308,774	----------	308,774
Viet-Nam	Piastre	1,601	2,217,974	2,219,576	10,808,441	13,028,018
Other	----------	----------	----------	----------	170,377	170,377
Total Non-Excess Currency Countries	----------	47,621,768	12/ 87,687,716	135,309,485	345,212,316	480,521,801
Total All Countries	----------	73,508,578	1,227,855,833	1,301,364,411	1,505,725,194	2,807,089,606

FOOTNOTES

1 Restricted by the terms of international agreements or by administrative determination to use for specific programs and may not be used for other purposes.

2 Non-restricted currencies may be used for payment of official U.S. obligations in the countries concerned and for accommodation exchanges for U.S. personnel.

3 Country use currencies are U.S. owned foreign currencies which are restricted to expenditure for loans or grants.

4 Where the supply of a nonrestricted currency substantially exceeds the normal operating requirements of the Government (exclusive of requirements financed by restricted or reserve currencies), the currency is designated an excess currency by the Treasury Department.

5 Includes $1,668,763 earmarked for 104(e) grants pursuant to allocation letter No. 352, dated June 9, 1964.

6 Has been removed from the list of excess currency countries for purposes of budget requests for the fiscal year 1965.

7 Includes $4,501,769 earmarked for 104(g) loans pursuant to allocation letters No's. 353 and 354, dated August 5, 1964 and August 17, 1964, respectively.

8 Includes $744,553 earmarked for 104(e) grants (Indus Basin Program) pursuant to allocation letter No. 349, dated March 9, 1964.

9 Includes $125,293 earmarked for 104(g) loans pursuant to allocation letter No. 348, dated February 21, 1964.

10 Where the supply of nonrestricted currency holdings are not expected substantially to exceed requirements for the reasonable forseeable future.

11 Pursuant to Bureau of the Budget's Bulletin No. 65-5, dated September 15, 1964, it is expected that Brazil will be designated as an excess currency country upon the signing of the contemplated 6th agreement under Title I of the Agricultural Trade Development and Assistance Act of 1954, as amended (Public Law 480).

12 Analysis of non-restricted holdings available for U.S. use:

	Non-Excess Currency Countries	Excess Currency Countries	Total
Non-restricted funds	$ 87,687,717	$1,140,168,116	$1,227,855,833
Less:			
Allocated for Country use	----------	- 7,040,378	- 7,040,378
Undisbursed reservation balance	- 127,596,164	- 134,996,870	- 262,593,034
Net availability	$ - 39,908,447	$ 998,130,868	$ 958,222,421

2) <u>Conditions, if any, under which these funds can be used to reduce the balance-of-payments deficit.</u>

Treasury Circular No. 930, provides that "unless otherwise authorized by the Secretary of the Treasury, no agency or accountable officer shall purchase, or direct the purchase of, foreign exchange from any source outside the Government of the United States, except when exchange for the purpose intended is not available for purchase from within the Government".

All of our agreements (negotiated under Public Law 480 which provide for payment in foreign currencies), contain a clause setting aside a specific amount or percentage for use by the United States Government. The percentages range from 10 to 50% of the total sales contract and utilization of these currencies to meet official expenses of the U.S. Government represents a saving in dollars directly benefitting our balance of payments.

Some activities, other than regular government operations, for which the U.S. Government uses foreign currency holdings (when and where possible) are:

1) Payment of U.S. Government contractors and their personnel in the foreign country.

2) Payment of veterans benefits, social security, and any other benefits to beneficiaries living in the foreign country.

3) Payment of air-line fares, freight bills, communications and other services in the foreign country.

4) Procurement of materials required within the country and, when possible, those needed for U.S. operations in other countries or in the programs of aid to other foreign countries.

5) Sales to U.S. Government personnel, military and civilian, as accommodation exchange.

6) Sales to U.S. citizens for travel or other purposes, when possible by agreement with the host government.

In the past decade the United States has obtained benefit to its balance of payments from utilization of foreign currencies as set forth in the following table.

As indicated in the table on our foreign currency holdings, in the great majority of countries, these holdings are working balances and are being used to meet our official requirements. In most cases, not only these amounts will be fully used but we will have to purchase some local currency with dollars to meet our requirements in full. However, in eight countries (Burma, Guinea, India, Israel, Pakistan, Poland, the United Arab Republic, and Yugoslavia) our supply of foreign currency is in excess of our estimated requirements and special problems are involved.

Sales for payment in local currency under PL 480 are made only in those cases where payment cannot be made in hard currency and otherwise the sale would be lost. The excessive amounts of local currency on hand, therefore, are a by-product of U.S. aid through the Food-for-Peace program. Since these goods were sold for local currency primarily because the receiving country did not and does not have foreign exchange, the effort to utilize the foreign currency in any way which could deny the host country receipt of foreign exchange it might expect otherwise is strongly resisted by the host government. Further, to the extent that U.S. use of these funds reduces foreign exchange receipts of the host government, the U.S. aid effort is circumvented. Nevertheless, the U.S. has used these currencies to the maximum degree possible as provided under the agreements and is constantly pressing for more liberal arrangements about the use of these excess currencies. However, this effort requires negotiation with each government concerned, and since the host governments foresee no gain for themselves and even a loss of foreign exchange from agreeing to our more extensive use of these currencies, they do not willingly agree.

BALANCE OF PAYMENTS BENEFIT DERIVED FROM THE USE OF FOREIGN CURRENCY ACQUIRED WITHOUT PURCHASE WITH DOLLARS FISCAL YEARS 1955-1964
(In millions of dollar equivalents)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Foreign currency used under appropriations for U.S. programs. 1/	321.4	240.9	258.6	270.5	240.6	208.3	240.1	242.1	287.0	321.8
Less: Currency used under special foreign currency appropriations.	-----	-----	-----	3.6	2.4	1.0	21.4	39.3	45.6	29.2
Balance of payments benefit derived from foreign currency usage. 2/	321.4	240.9	258.6	266.9	238.2	207.3	218.7	202.8	241.4	292.6 3/

1/ Includes sales of foreign currency to U.S. personnel.

2/ This assumes that programs other than those authorized by special foreign currency appropriations would have been carried on at the same level had there been no U.S. foreign currency holdings.

3/ Includes $73.3 million resulting from the unfunding of ce.tain accounts pursuant to Section 508 of P.L. 88-257.

3) <u>The amounts of World War I loans to European countries still outstanding</u>.

Attached is a table showing the indebtedness of foreign governments to the United States arising from World War I, as of June 30, 1964; also, some supplementary tables on the status of this indebtedness.

THE WORLD WAR INDEBTEDNESS OF FOREIGN GOVERNMENTS TO

THE UNITED STATES
(1917-1921)

Part I — Statement Showing Indebtedness, Also Payments of Foreign Governments to the United States.

Part II — Payments Made Since July 1, 1932.

Part III — Summary of Receipts by Fiscal Years.

Part IV — World War I Indebtedness, Payments and Balances Due Under Agreements Between the United States and Germany in Reichsmarks and U. S. Dollars.

Part V — Indebtedness of Germany Under the Funding and Moratorium Agreements of June 23, 1930 and May 26, 1932.

Source: Treasury Department
Bureau of Accounts

PART I

Indebtedness of Foreign Governments

Indebtedness of foreign governments to the United States arising from World War I, as of June 30, 1964

	Original indebtedness	Interest through June 30, 1964	Total	Cumulative payments		Amount due June 30, 1964		
				Principal	Interest	Total	Unmatured principal	Principal and interest due and unpaid
Armenia	$ 11,959,917.49	$ 26,793,083.37	$ 38,753,000.86	------------	------------	$ 38,753,000.86	------------	$ 38,753,000.86
Austria 1/	26,843,148.66	44,058.93	26,887,207.59	$ 862,668.00	------------	26,024,539.59	$ 3,530,505.24	22,494,034.35
Belgium	419,837,630.37	293,936,720.47	713,774,350.84	19,157,630.37	$ 33,033,642.87	661,583,077.60	219,980,000.00	441,603,077.60
Cuba	10,000,000.00	2,286,751.58	12,286,751.58	10,000,000.00	2,286,751.58	------------	------------	------------
Czechoslovakia	185,071,023.07	97,297,635.71	282,368,658.78	19,829,914.17	304,178.09	262,234,566.52	91,875,000.00	170,359,566.52
Estonia	16,466,012.87	20,152,190.01	36,618,202.88	------------	1,248,432.07	35,369,770.81	10,036,000.00	25,333,770.81
Finland	8,999,999.97	10,953,718.46	19,953,718.43	2/ 3,751,300.98	2/10,937,285.27	5,265,132.18	5,248,698.99	3/ 16,433.19
France	4,089,689,588.18	2,852,119,487.14	6,941,809,075.32	226,039,588.18	260,036,302.82	6,455,733,184.32	1,958,692,869.71	4,497,040,314.61
Great Britain	4,802,181,641.56	6,524,431,958.11	11,326,613,599.67	434,181,641.56	1,590,672,656.18	9,301,759,301.93	2,701,000,000.00	6,600,759,301.93
Greece 4/	32,499,922.67	16,781,628.44	49,281,551.11	983,922.67	3,143,133.34	45,154,495.10	9,100,000,00	36,054,495.10
Hungary 5/	1,982,555.50	2,576,335.31	4,558,890.81	73,995.50	482,924.26	4,001,971.05	1,212,085.00	2,789,886,05
Italy	2,042,364,319.28	295,003,720.22	2,337,368,039.50	37,464,319.28	63,365,560.68	2,236,538,159.34	1,282,900,000.00	953,638,159.34
Latvia	6,888,604.20	8,533,006.91	15,421,671.11	9,200.00	752,349.07	14,660,122.04	4,230,300.00	10,429,822.04
Liberia	26,000.00	10,471.56	36,471.56	26,000.00	10,471.56	------------	------------	------------
Lithuania	6,432,465.00	7,965,412.14	14,397,877.14	234,783.00	1,003,173.58	13,159,920.56	3,859,007.00	9,300,913.56
Nicaragua 6/	141,950.36	26,625.48	168,575.84	141,950.36	26,625.48	------------	------------	------------
Poland	207,344,297,37	257,946,604.38	465,290,901.75	7/ 1,287,297.37	21,359,000.18	442,644,604.20	128,375,000.00	314,269,604.20
Rumania	68,359,192.45	45,816,305.84	114,175,498.29	8/ 4,498,632.02	8/ 292,375.20	109,384,491.07	35,084,000.00	74,300,491.07
Russia	192,601,297.37	447,199,484.93	639,800,782.30	------------	9/8,750,311.88	631,050,470.42	------------	631,050,470.42
Yugoslavia	63,577,712.55	19,354,652.92	82,932,365.47	1,952,712.55	636,059.14	80,343,593.78	38,895,000.00	41,448,593.78
Total	12,193,267,338.92	10,929,229,851.91	23,122,497,190.83	760,495,556.01	1,998,341,233.45	20,363,660,401.37	6,494,018,465.94	13,869,641,935.43

1/ The Federal Republic of Germany has recognized liability for securities falling due between March 12, 1938 and May 8, 1945.
2/ $5,985,605.58 has been made available for educational exchange programs with Finland pursuant to 20 U.S.C. 222-224.
3/ Represents deferred interest due Dec. 15, 1964.
4/ Includes $11,336,000.00 of this debt which has been refunded by the agreement of May 28, 1964. The agreement has not been ratified by Congress.
5/ Interest payments from Dec. 15, 1932 to June 15, 1937 were paid in pengo equivalent.
6/ The indebtedness of Nicaragua was canceled pursuant to the agreement of April 14, 1938.
7/ Excludes claim allowance of $1,813,428.69 dated Dec. 15, 1929.
8/ Excludes payment of $100,000.00 on June 14, 1940 as a token of good faith.
9/ Principally proceeds from liquidation of Russian assets in the United States.

PART II

PAYMENTS MADE DURING PERIOD FROM JULY 1, 1932 TO JUNE 30, 1964

Funding Agreements

	Principal	Interest	Moratorium Agreements Annuities	Total
Czechoslovakia Total	$ 1,829,914.17	-0-	-0-	$ 1,829,914.17 1/
Finland				
December 15, 1932 to June 15, 1963	2,901,000.00	$ 7,150,705.00	$1,286,469.12	11,338,174.12 1/
December 15, 1963	167,000.00	94,692.50	21,132.18	282,824.68
June 15, 1964	-0-	91,770.00	21,132.18	112,902.18
Great Britain Total	30,000,000.00	83,055,999.07	-0-	113,055,999.07 1/
Greece Total	-0-	1,035,120.00	-0-	1,035,120.00 1/
Hungary Total	-0-	88,453.44	-0-	88,453.44 1/
Italy Total	-0-	3,245,458.26	-0-	3,245,458.26 1/
Latvia Total	9,200.00	118,182.28	-0-	127,382.28 1/
Lithuania Total	-0-	109,376.36	-0-	109,376.36 1/
Rumania Total	-0-	29,061.46	-0-	29,061.46 1/ 3/
Russia Total	-0-	-0-	-0-	-0- 2/
	$34,907,114.17	$95,018,818.37	$1,328,733.48	$131,254,666.02

1/ For detailed analysis of payments see supplement of June 30, 1961.
2/ Does not include $1,433.01 paid on unfunded indebtedness by the Provisional Government of Russia.
3/ Does not include token payment made June 15, 1940.

PART III

Summary of Receipts

	Principal	Interest	Total
Total Fiscal Year 1933 Through Fiscal Year 1963	$35,018,017.17	$95,842,355.00	$130,860,372.17 1/
1964	176,397.98	219,328.88	395,726.86
	$35,194,415.15	$96,061,683.88	$131,256,099.03

For a detailed analysis of Receipts by Fiscal Years see supplement of June 30, 1961.

PART IV

World War I indebtedness, payments and balances due under agreements between the United States and Germany as of June 30, 1964

Agreement of June 23, 1930 and May 26, 1932	Army costs (reichsmarks)	Mixed claims (reichsmarks)	Total (reichsmarks)	Total (U.S. dollars)
Indebtedness as funded	1,048,100,000.00	1/ 1,632,000,000.00	2,680,100,000.00	2/ $1,080,884,330.00
Payments:				
Principal ...	50,600,000.00	81,600,000.00	132,200,000.00	3/ 31,539,595.84
Interest	856,406.25	5,610,000.00	6,466,406.25	3/ 2,048,213.85
Total	51,456,406.25	87,210,000.00	138,666,406.25	3/ 33,587,809.69
Balance:				
Principal ...	997,500,000.00	1,550,400,000.00	2,547,900,000.00	2/ 1,027,568,070.00
Interest	4/ 469,254,707.75	439,110,000.00	4/ 908,364,707.75	2/ 366,343,486.64
Total	1,466,754,707.75	1,989,510,000.00	5/ 3,456,264,707.75	2/ 1,393,911,556.64

Agreement of February 27, 1953 6/	Indebtedness as funded in U.S. dollars	Total payments through June 30, 1964	Balance due
Mixed claims (U.S. dollars)	$97,500,000.00	$41,500,000.00	$56,000,000.00

1/ Excludes 489,600,000 reichsmarks canceled under agreement of February 27, 1953 (see note 5).
2/ The amount of indebtedness as funded was converted to U.S. dollars at the rate of 40.33 cents to the reichsmarks.

PART IV

3/ The amount of payments was converted at the rate applicable at time of payment, i.e., 40.33 or 23.82 cents to the reichsmarks.

4/ Includes interest accrued under unpaid moratorium agreement annuities amounting to 5,289,989 reichsmarks.

5/ Includes 4,027,611.95 reichsmarks deposited by the German Government in the Konversionskasse fur Deutsche Auslandsschulden and not paid to the United States in dollars as required by the agreement.

6/ Under the agreement of Feb. 27, 1953, the United States agreed to cancel and deliver to the German Government 24 reichsmarks bonds of 20,400,000 reichsmarks each, issued under the agreement of June 23, 1930, and receive 26 dollar bonds amounting to $97,500,000. These bonds mature serially over a period of 25 years beginning Apr. 1, 1953. The first 5 bonds are in amounts of $3,000,000 each, the next 5 in amounts of $3,700,000 each, and the remaining 16 in amounts of $4,000,000 each.

PART V

INDEBTEDNESS OF GERMANY UNDER THE FUNDING AND MORATORIUM AGREEMENTS OF JUNE 23, 1930 AND MAY 26, 1932

Amounts not paid according to contract terms, June 30, 1964 (in reichsmarks)

Army Costs and Mixed Claims

	Funding Agreement		Moratorium Agreement	Total
	Principal	Interest		
Total due Sept. 30, 1933 through March 31, 1963	1,682,300,000.00 1/	829,133,312.50	30,580,989.00	2,542,014,301.50 2/
Sept. 30, 1963	38,050,000.00	36,560,250.00	-0-	74,610,250.00
March 31, 1964	38,050,000.00	37,390,156.25	-0-	75,440,156.25
Total (reichsmarks) as of June 30, 1964	1,758,400,000.00	903,083,718.75	30,580,989.00	2,692,064,707.75
Total (in U. S. dollars @ 40.33 cents to the reichsmark)	$709,162,720.00	$364,213,663.77	$12,333,312.86	$1,085,709,696.63
Total (in U. S. dollars @ 23.82 cents to the reichsmark)	$418,850,880.00	$215,114,541.81	$ 7,284,391.58	$ 641,249,813.39

1/ In accordance with the agreement of February 27, 1953, a reduction was made in the amount of 489,600,000 reichsmarks (24 bonds in the amount of 20,400,000 reichsmarks each) in exchange for 26 U. S. Dollar bonds in the amount of $97,500,000 payable in installments, on April 1st. of each year, until paid by the Federal Republic of Germany.

2/ For a detailed analysis of amounts coming due each semi-annual period see supplement of June 30, 1961.

4) Conditions, if any, under which these can be offset against the balance-of-payments problem.

Most governments fulfilled their commitments under their World War I debt agreements until the depression. Defaults began in 1932, following the expiration of the one-year moratorium on debts owed to the United States negotiated by President Hoover in an effort to mitigate the effect of these debt obligations on Europe's economic health. With the exception of Finland, which is the only country which has continued fully to meet its obligations, debtor countries have made only token payments since the early 1930's and no payments at all since the beginning of World War II.

While the countries which have large World War I obligations to the United States have never denied the juridical validity of their debts, there is a strongly held view among them that the payment of these debts should be dependent on reparation payments by Germany. Resolution of the problem of governmental claims against Germany arising out of World War I was deferred "until a final general settlement of this matter" by the London Agreement on German external debts, concluded in 1953. This Agreement, to which the United States is a party, has the status of a treaty and was approved by the Senate.

The Government of the United States has never recognized that there was any connection between the World War I obligations of those countries and their reparations claims on Germany. While the London Agreement would not prevent the United States from raising, on a bilateral basis, the question of payment of any of the debtor countries' World War I obligations (except in the case of Germany), it must be recognized that any effort on the part of the United States to collect these obligations would undoubtedly raise the problem of German World War I reparations. From the practical viewpoint, therefore, there does not seem to be any possibility of reaching an agreement on repayment in the absence of an over-all settlement of the German World War I reparation problem, with its wide-ranging political ramifications.

5) <u>Can you supply the Committee with the volume by country of soft currency we have acquired under Public Law 480?</u>

The attached table sets forth both total acquisition and disbursement of local currency under the PL 480 program since its inception in 1954. Balances are as of June 30, 1964.

FOREIGN CURRENCIES ACQUIRED AND DISBURSED UNDER TITLE I, PUBLIC LAW 480, SINCE INCEPTION OF THE PROGRAM IN 1954.
(In millions of Units of Foreign Currency)

COUNTRY	CURRENCY	COLLECTIONS THROUGH JUNE 30, 1964		DISBURSEMENTS BY AGENCIES THROUGH JUNE 30, 1964 2/	BALANCES JUNE 30, 1964 4/	
		SALES PROCEEDS	OTHER PROCEEDS 1/		UNITS OF FOREIGN CURRENCY	DOLLAR EQUIVALENT
Argentina	Peso	633.6	11.4	630.7	14.3	$ .1
Austria	Schilling	1,044.2	---------	1,043.9	.3	*
Bolivia	Peso	181.2	3.4	119.2	65.5	5.5
Brazil	Cruzeiro	110,511.8	532.8	47,714.9	63,329.7	54.6
Burma	Kyat	214.6	21.3	115.0	120.8	25.6
Ceylon	Rupee	126.9	2.0	65.1	63.8	13.4
Chile	Escudo	51.2	7.1	52.9	5.4	1.8
China	N.T.Dollar	5,858.0	50.8	4,773.4	1,135.4	28.4
Colombia	Peso	350.0	44.3	381.7	12.5	1.3
Congo	Franc	2,677.9	---------	1,651.7	1.026.3	6.8
Cyprus	Pound	.5	---------	*	.5	1.3
Ecuador	Sucre	181.4	2.5	183.7	.1	*
Ethiopia	E. Dollar	1.9	---------	.6	1.3	.5
Finland	New Markka	115.7	120.5	228.4	7.9	2.4
France	Franc	152.7	12.5	165.2	---------	---------
Germany	W.D. Mark	5.0	---------	5.0	---------	---------
Greece	Drachma	3,562.2	237.1	3,254.6	544.8	18.2
Guinea	Franc	3,584.0	---------	803.2	2,780.8	11.8
Iceland	Krona	471.0	15.0	470.1	15.9	.4
India	Rupee	9,627.9	155.2	6,902.0	3/2,881.1	605.9
Indonesia	Rupiah	20,056.7	192.4	5,829.8	14,419.3	27.9
Iran	Rial	3,475.5	69.4	3,007.4	537.5	7.2
Israel	Pound	521.4	63.5	467.1	117.8	39.3
Italy	Lira	90,074.6	1,291.2	91,019.3	346.5	.6
Japan	Yen	52,659.7	---------	52,637.3	22.4	.1
Korea	Won	37,840.7	79.4	34,495.5	3,424.6	13.4
Mexico	Peso	314.6	54.2	368.1	.7	.1
Morocco	Dirham	102.4	7.9	33.3	77.0	15.4
Nepal	Nepalese Rupee	---------	.1	.1	---------	---------
Netherlands	Guilder	1.0	---------	1.0	---------	---------
Pakistan	Rupee	3,434.9	89.3	3,174.2	350.0	72.9

FOREIGN CURRENCIES ACQUIRED AND DISBURSED UNDER TITLE I, PUBLIC LAW 480, SINCE INCEPTION OF THE PROGRAM IN 1954.
(In Millions of Units of Foreign Currency)

COUNTRY	CURRENCY	COLLECTIONS THROUGH JUNE 30, 1964		DISBURSEMENTS BY AGENCIES THROUGH JUNE 30, 1964 2/	BALANCES JUNE 30, 1964 4/	
		SALES PROCEEDS	OTHER PROCEEDS 1/		UNITS OF FOREIGN CURRENCY	DOLLAR EQUIVALENT
Paraguay	Guarani	1,508.5	46.4	873.9	681.0	$ 5.4
Peru	Sol	773.6	42.1	628.7	187.0	7.0
Philippines	Peso	106.3	1.2	62.9	44.6	11.4
Poland	Zloty	12,150.8	---------	456.6	11,694.2	487.3
Portugal	Escudo	205.0	---------	205.0	---------	----------
Spain	Peseta	22,895.8	710.4	22,519.1	1,087.1	18.2
Sudan	Pound	3.7	---------	1.0	2.7	7.9
Syrian Arab Republic	S.Pound	125.2	.9	52.1	74.0	18.1
Thailand	Baht	91.7	3.7	95.4	---------	----------
Tunisia	Dinar	14.1	.1	9.9	4.3	10.3
Turkey	Lira	3,169.0	107.8	2,909.9	366.9	40.8
United Arab Republic (Cairo)	Pound	247.5	7.6	181.6	73.5	169.4
United Kingdom	Pound	17.4	---------	13.3	4.1	11.4
Uruguay	Peso	158.9	24.8	176.5	7.2	.4
Viet-Nam	Piastre	5,871.5	---------	5,109.4	762.1	10.5
Yugoslavia	Dinar	326,721.5	8,866.0	152,461.9	183,125.6	244.2
TOTAL						$ 1,997.2

FOOTNOTES

* Under 50,000

1/ P.L. 480, 104(e) and (g) loan interest and repayment of principal and proceeds from sales of 104(d) commodities

2/ Disbursements exceed collections in some countries because of conversions from other countries

3/ Includes 20.3 rupees ($4.3) held in Nepal.

4/ Total U.S. Government balances, including U.S. Use and Country Use funds in Treasury and other agency accounts.

6) Explain the conditions, if any, under which these funds can be used to reduce the balance of payments deficit.

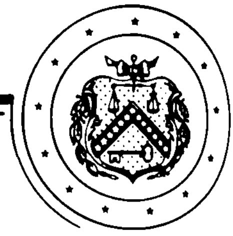
The answer to this question together with an analysis of how these funds are being used is set forth in the answer to question number 2 above.

7) <u>In your opinion at this late date could Congress pass any kind of legislation which would open up these funds?</u>

Our foreign currency balances have arisen largely as a direct consequence of our substantial sales of surplus agricultural commodities to friendly countries. Their acquisition and use is negotiated through bilateral inter-governmental agreements and any attempt to alter them by unilateral legislative action would require a judgment, not simply in terms of the foreign currency aspect of the problem but, in terms of our over-all foreign policy objectives. Such unilateral legislative action at the present time does not appear likely to be useful.

Any consideration of legislative action to dispose of substantial portions of our holdings of excess U.S.-owned foreign currency by grants, as some have suggested, should take into account the possible loss to our balance-of-payments that could be involved. The excess status of some of our currency holdings may change quickly if unforeseen developments arise.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 10, 1965

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
VELVET FLOOR COVERINGS

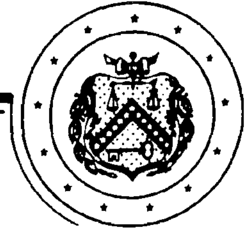
On February 18, 1965, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(a) of the Customs Regulations that all shipments of velvet floor coverings imported from Great Britain, manufactured by Carpet Trades Limited, Kidderminster, Great Britain, are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

Information was received from sources within the Customs Service.

An "Antidumping Proceeding Notice" to this effect is being published in the Federal Register pursuant to section 14.6(d)(1)(i) of the Customs Regulations.

The dollar value of imports received during the period August 1, 1964, through December 31, 1964, was approximately $25,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

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The dollar value of imports received during the period August 1, 1964, through December 31, 1964, was approximately $25,000.

RETAxxxMODIFIED

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 18, (16) 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 18, 1965 (17). Cash

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE March 10, 1965

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two serie of Treasury bills to the aggregate amount of $2,200,000,000 -(2)-, or thereabouts, for cash and in exchange for Treasury bills maturing March 18, 1965 -(3)-, in the amoun of $2,200,860,000 -(4)-, as follows:

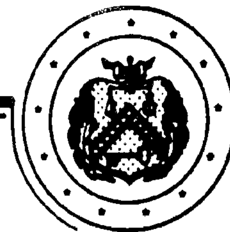
91 -(5)- -day bills (to maturity date) to be issued March 18, 1965 -(6)-, in the amount of $1,200,000,000 -(7)-, or thereabouts, representing an additional amount of bills dated December 17, 1964 -(8)-, and to mature June 17, 1965 -(9)-, originally issued in the amount of $ 1,000,604,000 -(10)-, the additional and original bills to be freely interchangeable.

182 -(11)- -day bills, for $ 1,000,000,000 -(12)-, or thereabouts, to be dated March 18, 1965 -(13)-, and to mature September 16, 1965 -(14)-.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 15, 1965 -(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

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 10, 1965

FOR IMMEDIATE RELEASE

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The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 18, 1965, in the amount of $ 2,200,860,000, as follows:

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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-1531

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 18, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 18, 1965. 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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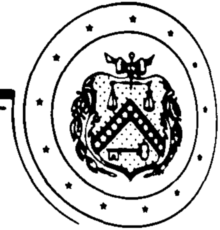
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 10, 1965

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
PERCHLORETHYLENE SOLVENT

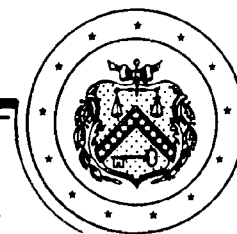
The Treasury Department is instructing customs field officers to withhold appraisement of perchlorethylene solvent IP-420 from France, manufactured by Solvay & Cie, Paris, France, pending a determination as to whether this merchandise is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. 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 information alleging that the merchandise under consideration was being sold at less than fair value within the meaning of the Antidumping Act was received in proper form on November 6, 1964. The information was received from sources within the Customs Service.

The dollar value of imports received during the period July 1 through November 30, 1964, was approximately $200,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

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TREASURY DEPARTMENT
WASHINGTON

IMMEDIATE RELEASE

THURSDAY, MARCH 11, 1965 D-1532

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1965, to February 27, 1965, inclusive, of commodities under quotas established pursuant to the Philippine Trade Agreement Revision Act of 1955:

Commodity	Established Annual Quota Quantity	Unit of Quantity	Imports as of February 27, 1965
Buttons........	510,000	Gross	84,636
Cigars	120,000,000	Number	824,855
Coconut oil ...	268,800,000	Pound	109,700,632
Cordage	6,000,000	Pound	1,251,911
Tobacco	3,900,000	Pound	526,587

TREASURY DEPARTMENT
WASHINGTON

IMMEDIATE RELEASE

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Cordage	6,000,000	Pound	1,251,911
Tobacco	3,900,000	Pound	526,587

Commodity	Period and Quantity		Unit of Quantity	Imports as o Feb. 27, 196
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar Year	1,200,000	Pound	Quota Fille
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 1964	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1964	1,709,000	Pound	Quota Fille

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

THURSDAY, MARCH 11, 1965 D-1533

The Bureau of Customs announced today preliminary figures on imports for consumption of the following commodities from the beginning of the respective quota periods through February 27, 1965:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Feb. 27, 1965
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar Year	1,500,000	Gallon	48,038
Whole Milk, fresh or sour	Calendar Year	3,000,000	Gallon	13
Cattle, 700 lbs. or more each (other than dairy cows)	Jan. 1, 1965 - Mar. 31, 1965	120,000	Head	4,873
Cattle, less than 200 lbs.each	12 mos. from April 1, 1964	200,000	Head	55,810
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar Year	24,383,589	Pound	Quota Filled 1/
Tuna Fish	Calendar Year	To be announced	Pound	4,175,915
White or Irish potatoes:				
Certified seed	12 mos. from	114,000,000	Pound	107,452,115
Other	Sept. 15, 1964	45,000,000	Pound	Quota Filled
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1964 - Oct. 31, 1965	69,000,000	Pieces	Quota Filled

1/ Imports for consumption at the quota rate are limited to 6,095,897 pounds during the first 3 months of the calendar year.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

THURSDAY, MARCH 11, 1965 D-1533

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Commodity	Period and Quantity		Unit of Quantity	Imports as of Feb. 27, 1965
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar Year	1,200,000	Pound	Quota Filled
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 1964	1,000	Pound	-
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1964	1,709,000	Pound	Quota Filled

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

THURSDAY, MARCH 11, 1965

D-1

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and milled wheat products 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, and provided for in the Tariff Schedules of the United States, for the 12 months commencing May 29, 1964, as follows:

Country of Origin	Wheat		Milled wheat products	
	Established Quota	Imports May 29, 1964, March 8, 1965	Established Quota	Imports May 29, 1964, March 8, 1965
	(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	720
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	397
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	-	-	-
Other foreign countries or areas	-	-	-	-
	800,000	795,000	4,000,000	3,816,117

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

THURSDAY, MARCH 11, 1965

D-1534

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and milled wheat products 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, and provided for in the Tariff Schedules of the United States, for the 12 months commencing May 29, 1964, as follows:

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	(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	720
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	397
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	-	-	-
Other foreign countries or areas	-	-	-	-
	800,000	795,000	4,000,000	3,816,117

TREASURY DEPARTMENT
Washington, D. C.

D-1535

IMMEDIATE RELEASE
THURSDAY, MARCH 11, 1965

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, AS MODIFIED BY THE TARIFF SCHEDULES OF THE UNITED STATES, WHICH BECAME EFFECTIVE AUGUST 31, 1963.

QUARTERLY QUOTA PERIOD – January 1, 1965 - March 31, 1965

IMPORTS – January 1, 1965 - March 5, 1965 (or as noted)

Country of Production	ITEM 925.01* Lead-bearing ores and materials		ITEM 925.03* Unwrought lead and lead waste and scrap		ITEM 925.02* Zinc-bearing ores and materials		ITEM 925.04* Unwrought zinc (except alloys of zinc and zinc dust) and zinc waste and scrap	
	Quarterly Quota Dutiable lead (Pounds)	Imports	Quarterly Quota Dutiable lead (Pounds)	Imports	Quarterly Quota Zinc Content (Pounds)	Imports	Quarterly Quota By Weight (Pounds)	Imports
Australia	11,220,000	11,220,000	22,540,000	7,995,677	-	-	-	-
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	***499,097
Bolivia	5,040,000	***1,098,300	-	-	-	-	-	-
Canada	13,440,000	***13,253,102	15,920,000	***12,867,958	66,480,000	66,480,000	37,840,000	***37,840,000
Italy	-	-	-	-	-	-	3,600,000	***1,722,414
Mexico	-	-	36,880,000	27,151,710	70,480,000	39,705,800	6,320,000	***3,440,485
Peru	16,160,000	16,160,000	12,880,000	***7,912,743	35,120,000	14,859,954	3,760,000	***2,620,812
Republic of the Congo (formerly Belgian Congo)	-	-	-	-	-	-	5,440,000	***5,438,847
**Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	***2,232,242	-	-	-	-
All other countries (total)	6,560,000	***3,130,575	6,080,000	***248,048	17,840,000	17,840,000	6,080,000	6,080,000

*See Part 2, Appendix to Tariff Schedules.
**Republic of South Africa.
***Imports as of March 8, 1965.

PREPARED IN THE BUREAU OF CUSTOMS

TREASURY DEPARTMENT
Washington, D. C.

D-1535

IMMEDIATE RELEASE
URSDAY, MARCH 11, 1965

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, AS MODIFIED BY THE TARIFF SCHEDULES OF THE UNITED STATES, WHICH BECAME EFFECTIVE AUGUST 31, 1963.

QUARTERLY QUOTA PERIOD – January 1, 1965 - March 31, 1965

IMPORTS – January 1, 1965 - March 5, 1965 (or as noted)

Country of Production	ITEM 925.01* Lead-bearing ores and materials		ITEM 925.03* Unwrought lead and lead waste and scrap		ITEM 925.02* Zinc-bearing ores and materials		ITEM 925.04* Unwrought zinc (except alloys of zinc and zinc dust) and zinc waste and scrap	
	Quarterly Quota Dutiable lead (Pounds)	Imports	Quarterly Quota Dutiable lead (Pounds)	Imports	Quarterly Quota Zinc Content (Pounds)	Imports	Quarterly Quota By Weight (Pounds)	Imports
Australia	11,220,000	11,220,000	22,540,000	7,995,677	-	-	-	-
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	***499,097
Bolivia	5,040,000	***1,098,300	-	-	-	-	-	-
Canada	13,440,000	***13,253,102	15,920,000	***12,867,858	66,480,000	66,430,000	37,840,000	***37,840,000
Italy	-	-	-	-	-	-	3,600,000	***1,722,414
Mexico	-	-	36,880,000	27,151,710	70,480,000	39,705,800	6,320,000	***3,440,485
Peru	16,160,000	16,160,000	12,880,000	***7,912,743	35,120,000	14,859,954	3,760,000	***2,620,812
Republic of the Congo (formerly Belgian Congo)	-	-	-	-	-	-	5,440,000	***5,438,847
**Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	***2,232,242	-	-	-	-
All other countries (total)	6,560,000	***3,130,575	6,080,000	***248,048	17,840,000	17,840,000	6,080,000	6,080,000

*See Part 2, Appendix to Tariff Schedules.
**Republic of South Africa.
***Imports as of March 8, 1965.

PREPARED IN THE BUREAU OF CUSTOMS

COTTON WASTES
(In pounds)

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

Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1964, to March 8, 1965	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1964 to March 8, 1965
United Kingdom............	4,323,457	11,713	1,441,152	-
Canada....................	239,690	239,393	-	-
France....................	227,420	-	75,807	-
India and Pakistan........	69,627	43,264	-	-
Netherlands...............	68,240	-	22,747	-
Switzerland...............	44,388	-	14,796	-
Belgium...................	38,559	-	12,853	-
Japan.....................	341,535	-	-	-
China.....................	17,322	-	-	-
Egypt.....................	8,135	-	-	-
Cuba......................	6,544	-	-	-
Germany...................	76,329	25,425	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U. S.	-	-	-	-
	5,482,509	319,795	1,599,886	

1/ Included in total imports, column 2.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, MARCH 11, 1965

D-1536

Preliminary data on imports for consumption of cotton and cotton waste chargeable to the quotas established by Presidential Proclamation No. 2351 of September 5, 1939, as amended, and as modified by the Tariff Schedules of the United States which became effective August 31, 1963.

(The country designations in this press release are those specified in the appendix to the Tariff Schedules of the United States. There is no political connotation in the use of outmoded names.)

COTTON (other than linters) (in pounds)
Cotton under 1-1/8 inches other than rough or harsh under 3/4"
Imports September 20, 1964 - March 8, 1965

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	416,864
Peru	247,952	68,899
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	2,657,001
Brazil	618,723	-
Union of Soviet Socialist Republics	475,124	-
Argentina	5,203	-
Haiti	237	-
Ecuador	9,333	-
Honduras	752	-
Paraguay	871	-
Colombia	124	-
Iraq	195	-
British East Africa	2,240	-
Indonesia and Netherlands New Guinea	71,388	-
1/ British W. Indies	21,321	-
Nigeria	5,377	-
2/ British W. Africa	16,004	-
Other, including the U.S.	-	-

1/ Except Barbados, Bermuda, Jamaica, Trinidad, and Tobago.
2/ Except Nigeria and Ghana.

Cotton 1-1/8" or more
Established Yearly Quota - 45,656,420 lbs.

Imports August 1, 1964 - March 8, 1965

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	9,665
1-1/8" or more and under	4,565,642	2,148,733

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	5,482,509	319,795	1,599,886	

1/ Included in total imports, column 2.

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As an alternative to the new ceiling, any bank using the reserve method can add to its reserves according to the general standards of reasonableness under current law. Under these standards, a bank must show that its reserve is necessary to absorb probable losses on existing loans. There are several ways in which a bank can meet those standards. For example, a bank will meet them if its reserves for any given year reflect its average loss experience for the previous six years -- under a formula described in the ruling. Since the average recent loss experience of banks has been about fifteen one-hundreths of one percent of loans, it is unlikely that many banks will use this alternative.

The ruling was published today by the Internal Revenue Service in the attached Technical Information Release.

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The uniform rate will benefit more than 9,000 of the approximate 15,000 commercial banks in the United States, by allowing the 5,000 or so banks which now have no reserve to establish one with a minimum of difficulty, and by allowing the other 4,000 to increase their existing reserves.

Most of the approximately 5,000 banks which do not now use the reserve method are small banks with deposits of less than $5 million. By eliminating the cumbersome procedures involved in working out 20-year loss averages under the old rulings, the new rule will make it easier for small banks to adop

TO:

the reserves of the banking industry — [illegible] now totaling about $5 1/3 billion — will increase over the next 10 years by about $4 billion, depending on the growth in loans.

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FRANCIS A. LAVELLE

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The ruling will allow a bank whose reserve is less than 2.___ percent of outstanding loans to build up the differences over a period of not less than ten years. The bank may also make, on an annual basis, additions to its reserve equal to 2.___ percent of its net increase in loans plus the net amount of losses charged to its reserve.

A bank whose reserve exceeds 2.___ percent of outstanding loans will be allowed to make annual additions equal to the net

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Despite these wide variances in reserve ceilings, the actual reserves set up by all commercial banks at the end of 1963 amounted to slightly more than two percent of outstanding loans for all banks, and to slightly less than 2.25 percent of outstanding loans held by banks which use the reserve method. The average reserve ceiling of banks using the reserve method is abou 2.50 percent of loans.

To minimize the great disparities in reserve ceilings, the new ruling sets up a single reserve ceiling of 2.4 percent of outstanding loans. Since this percentage simply reflects a fair distribution of the benefits of previous rulings, it will have no significant effect on total tax liabilities of the

determines the size of the tax deduction, banks with high reserve ceilings can claim correspondingly high deductions, and thus gain a tax advantage over other banks with lower ceilings.

The reason why some banks have been allowed much higher reserve ceilings than others was their ability -- under earlier Internal Revenue rulings -- to establish high ceilings on the basis of their heavy losses during the depression years of the 1930's. Under these rulings a bank's reserve ceiling could be set at three times its loss experience for the period 1928 through 1947.

At the end of 1963, for example, 5,239 of the 13,275 insured commercial banks -- all but a few hundred commercial banks are insured -- did not use the reserve method and, therefore, ~~had no~~ reserves for bad debts. Of the 8,036 banks which used the reserve method, 1,412 banks had reserve ceilings of less than one percent

~~DRAFT~~ ~~3/4/65~~

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES NEW RULING ON
COMMERCIAL BANK BAD DEBT RESERVES

The Treasury today announced a new ruling that sets a uniform ceiling -- 2.4 percent of outstanding loans -- on commercial bank bad debt reserves. The ruling will apply to all commercial banks for taxable years ending after 1964.

Federal tax law allows taxpayers -- including commercial banks -- to deduct a debt when it becomes worthless. As an alternative, a taxpayer may choose to set up a reserve against possible future bad debts and take annual tax deductions in the form of reasonable additions to that reserve.

The new ruling will not apply to taxpayers other than commercial banks.

At present, there is great variation in the reserve ceilings of commercial banks. Since the size of the reserve ceiling

Most of the approximately 5,200 banks which do not now use the reserve method are small banks with deposits of less than $5 million. By eliminating the cumbersome procedures involved in working out 20-year loss averages under the old rulings, the new rule will make it easier for small banks to adopt the reserve method and thus to enjoy the same tax advantage that most large banks now enjoy.

As an alternative to the new ceiling, any bank using the reserve method can add to its reserves according to the general standards of reasonableness under current law. Under these standards, a bank must show that its reserve is necessary to absorb probable losses on existing loans. There are several ways in which a bank can meet these standards. For example, a bank will meet them if its reserves for any given year reflect its average loss experience for the previous six years -- under a formula described in the ruling. Since the average recent loss experience of banks has been about fifteen one-hundredths of one percent of loans, it is unlikely that many banks will use this alternative.

most recent

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To minimize the great disparities in reserve ceilings, the new ruling sets up a single reserve ceiling of 2.4 percent of outstanding loans. Since this percentage simply reflects a fair distribution of the benefits of previous rulings, it will have no significant effect on total tax liabilities of the banking industry. It is estimated that under the new ruling the reserves of the commercial banking industry -- which now total about $3.3 billion -- will increase over the next 10 years by about $3.5 to $4.5 billion, depending on the growth in the loans MADE BY BANKS.

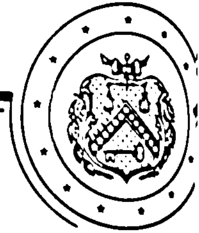
The ruling is the result of months of study conducted with the cooperation of representatives of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the commercial banking industry.

The ruling will allow a bank whose reserve is less than 2.4 percent of outstanding loans to build up the difference over a period of not less than ten years. The bank may also make, on an annual basis, additions to its reserve equal to 2.4 percent of its net increase in loans plus the net amount of losses charged to its reserve.

A bank whose reserve exceeds 2.4 percent of outstanding loans will be allowed to make annual additions equal to the net amount of its losses. Thus, the bank need not reduce its reserves in order to meet the new ceiling. Instead, it can maintain those reserves at the same dollar level while the growth in its loans gradually brings the ratio of its reserves to loans down to the new ceiling.

The uniform rate will benefit more than 9,500 of the approximately 13,300 insured commercial banks in the United States, by allowing the 5,200 or so banks which now have no reserve to establish one with a minimum of difficulty, and by allowing the other 4,300 to increase their existing reserves.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A.M. NEWSPAPERS
MONDAY, MARCH 15, 1965

March 12, 1965

~~FOR IMMEDIATE RELEASE~~

TREASURY ANNOUNCES NEW RULING ON
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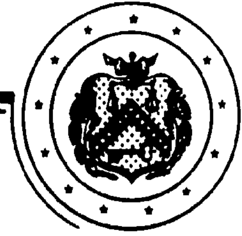
At present, there is great variation in the reserve ceilings of commercial banks. Since the size of the reserve ceiling determines the size of the tax deduction, banks with high reserve ceilings can claim correspondingly high deductions, and thus gain a tax advantage over other banks with lower ceilings.

The reason why some banks have been allowed much higher reserve ceilings than others was their ability -- under earlier Internal Revenue rulings -- to establish high ceilings on the basis of their ~~heavy~~ losses during the depression years of the 1930's. Under these rulings a bank's reserve ceiling could be set at three times its loss experience for the period 1928 through 1947.

At the end of 1963, for example, 5,239 of the 13,275 insured commercial banks -- all but a few hundred commercial banks are insured -- did not use the reserve method and, therefore, did not have any tax reserves at all for bad debts. Of the 8,036 banks which used the reserve method, 1,412 banks had reserve ceilings of less than one percent of loans, 4,076 banks had ceilings between one and three percent, 1,556 banks had ceilings between three and five percent, and 1,092 banks had ceilings of five percent or more.

TREASURY DEPARTMENT



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other 4,300 to increase their existing reserves.

Most of the approximately 5,200 banks which do not now use the reserve method are small banks with deposits of less than $5 million. By eliminating the cumbersome procedures involved in working out 20-year loss averages under the old rulings, the new rule will make it easier for small banks to adopt the reserve method and thus to enjoy the same tax advantage that most large banks now enjoy.

As an alternative to the new uniform percentage, any bank using the reserve method can add to its reserves on the basis of its current experience according to accepted standards. There are several ways in which a bank can meet these standards. For example, a bank will meet them if its reserves for any given year reflect its average loss experience for the most recent six years -- under a formula described in the ruling. Since the average recent loss experience of banks has been about fifteen one-hundredths of one percent of loans, it is unlikely that many banks will use this alternative.

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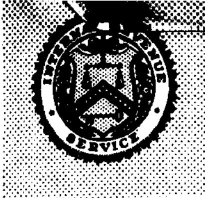


U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
PUBLIC INFORMATION DIVISION
WORTH 4-4021

TECHNICAL INFORMATION RELEASE

FOR RELEASE
Monday, March 15, 1965

TIR-707

U. S. Internal Revenue Service announced today that the following Revenue Ruling will appear in Internal Revenue Bulletin No. 1965-14, dated April 5, 1965.

Rev. Rul. 65-92

Revised method for computing annual additions to reserves for bad debts by banks for taxable years ending after December 31, 1964.

Mimeograph 6209, C. B. 1947-2, 26, and Revenue Ruling 54-148, C. B. 1954-1, 60, superseded.

SECTION 1. PURPOSE

The purpose of this Revenue Ruling is to provide a uniform percentage for computing annual additions to reserves for bad debts by banks in order to minimize the large differences in permissible reserves now existing among banks under prior rulings.

SEC. 2 BACKGROUND.

Section 166(a) of the Internal Revenue Code of 1954 allows a deduction for a debt which became worthless during the taxable year and, under certain circumstances, for a debt which is recoverable only in part and is charged off within the taxable year. Section 166(c) of the Code provides that, in lieu of any deduction under section 166(a) of the Code, there shall be allowed (in the discretion of the Secretary or his delegate) a deduction for a reasonable addition to a reserve for bad debts.

Mimeograph 6209, C. B. 1947-2, 26, authorized, in the case of banks, a special method for computing an annual addition to the reserve for bad debts. Under this method, a bank's bad debt reserve ceiling was computed by reference to a moving average experience factor for determining the ratio of losses to loans on the basis of 20 years of experience, including the taxable year. For any portion of such 20-year period during which a bank was not in existence, the bank was authorized to use the average experience of other similar banks with respect to the same type of loans.

Revenue Ruling 54-148, C. B. 1954-1, 60, supplemented Mimeograph 6209 and authorized a bank to use an average experience factor based on any 20 consecutive years of experience after 1927.

The Internal Revenue Service has re-examined the above rulings in the light of the experience developed thereunder. The rulings have resulted in large variances in reserves among banks and in reserve ceilings not related to the probability of bad debts on outstanding loans.

The Service has therefore approved a revised special method for use by banks which is designed to minimize the existing large variances in permissible reserves. This method, which is set forth in sections 3 through 6 of this Revenue Ruling and which utilizes a uniform ratio of 2.4 percent of outstanding loans, has been approved by the Service in view of the reserve levels previously established by banks, and the special circumstances applicable to the banking industry. This method will not be used by the Service as a precedent for determining reasonable additions to reserves for bad debts by taxpayers other than banks.

SEC. 3. UNIFORM RESERVE RATIO

In lieu of reserve computations made through the use of a loss experience factor determined on an individual basis as provided in section 7 of this Revenue Ruling, a bank will be allowed deductions for additions to its reserve for bad debts until the reserve equals 2.4 percent of loans outstanding at the close of the taxable year, subject to the exceptions and limitations prescribed in sections 4, 5, and 6 of this Revenue Ruling.

SEC. 4. RESERVE LESS THAN UNIFORM RATIO

If the dollar balance of a bank's reserve, as of the close of its taxable year immediately preceding the year of the change, is less than 2.4 percent of loans outstanding at such time, the amount of the difference (referred to herein as the deficiency in the reserve) may be included in the bank's annual addition to the reserve in an amount not exceeding one-tenth of the deficiency in the reserve, commencing with the year of the change. Such amount need not be added in any specific taxable year but not more than one-tenth of

the deficiency will be permitted in any one year. A bank computing its annual reserve addition under this section will also be permitted to include in such addition an amount equal to net bad debts charged to the reserve during the year. Further, it will be permitted to include in such addition 2.4 percent of the increase in its loans outstanding at the end of the taxable year over loans outstanding at the end of the year preceding the year of change, to the extent that a reserve addition with respect to such increase has not been taken in a prior year. The sum of the foregoing amounts, however, may not exceed an amount sufficient to increase the reserve to 2.4 percent of outstanding loans at the end of the taxable year. Thus, if a decrease in a bank's year-end outstanding loans has resulted in a reserve ratio in excess of 2.4 percent, no addition to the reserve would be permitted for that year. If a bank changes to the reserve method of accounting, it shall be treated, for purposes of this section, as having a reserve of zero for the taxable year immediately preceding the year of the change.

SEC. 5. RESERVE EXCEEDING UNIFORM RATIO

If the dollar balance of a bank's reserve, as of the close of its taxable year ending in 1964, exceeds 2.4 percent of loans outstanding at such time, the addition to the reserve in any taxable year shall not increase the reserve above the greater of (i) such dollar balance, or (ii)2.4 percent of loans outstanding at the close of the taxable year. Thus, a bank which has reserves exceeding 2.4 percent of outstanding loans may maintain the dollar balance of its reserve by making additions to its reserve equal to the net amount of bad debts charged to the reserve during the year. Notwithstanding the preceding rules of this section, if the amount of loans outstanding at the close of the taxable year is less than the amount of loans outstanding at the close of the taxable year ending in 1964, the addition to the reserve shall not increase the reserve at the close of the taxable year to a percentage of outstanding loans which is larger than the percentage which the reserve bore to outstanding loans at the close of the taxable year ending in 1964.

SEC. 6. MAXIMUM ANNUAL RESERVE ADDITION

Notwithstanding the provisions of sections4 and 5 of this ruling, the addition to the reserve that a bank will be permitted in a taxable year through the use of the uniform reserve ratio shall not exceed an amount equal to 0.8 percent of loans outstanding at the end

of the taxable year, or an amount sufficient to bring the reserve to 0.8 percent of loans outstanding at the end of the taxable year, whichever amount is greater.

SEC. 7. PROBABLE EXPERIENCE METHOD

In lieu of reserve computations made through the use of the uniform reserve ratio under sections 3 through 6 of this Revenue Ruling, a bank may compute its annual reserve additions under the method provided in this section. If a bank so computes its addition, it must establish, to the satisfaction of the District Director of Internal Revenue, that the amount computed is necessary in order to absorb the bad debts probably arising on loans outstanding at the close of the taxable year. In such event, the reasonableness of the proposed addition for the taxable year shall be determined under the provisions of section 166(c) of the Code in light of the facts existing at the close of such year. Thus, the reasonableness of the addition shall depend upon the total amount of the existing reserve and current business conditions, the nature of the bank's loans, the bank's past experience, and other factors, which may reasonably be expected to have a significant effect on the collection of the loans outstanding at the close of the taxable year. The reasonableness of the addition shall not, however, be based upon mere speculation, possibility, or contingency. For purposes of this section, the addition to the reserve for any taxable year will be regarded as reasonable if it does not increase the balance of the reserve (as of the close of such year) above an amount equal to the total amount of loans outstanding at the close of such year multiplied by the "moving average experience percentage" for such year. In determining the moving average experience percentage, reference shall be made to the bad debt experience of the bank with respect to its loans for a six-year period comprising the taxable year and the five preceding taxable years. The moving average percentage shall be computed as the ratio which the total amount of net bad debts sustained on loans during such six-year period bears to the sum of the total amounts of loans outstanding at the close of each taxable year in such period.

If the bank has not been in existence for the full six-year period, then, for the portion of such period during which it was not in existence, the taxpayer may use the average bad debt experience of comparable banks with respect to comparable loans.

SEC. 8. DEFINITIONS OF TERMS

.01 The term "banks" as used herein means banks or trust companies incorporated and doing business under the laws of the United States (including laws relating to the District of Columbia), of any State, or of any Territory, a substantial part of the business of which consists of receiving deposits and making loans and discounts. Such term does not include a mutual savings bank not having capital stock represented by shares, a domestic building and loan association as defined in section 7701(a)(19) of the Code, or a cooperative bank as defined in section 7701(a)(32) of the Code.

.02 The term "loans" as used in sections 3 through 6 of this ruling does not include Government insured or guaranteed loans to the extent so insured or guaranteed.

.03 The term "the year of change" means the first taxable year ending after December 31, 1964, or, in the case of a bank changing from the specific charge-off method to the reserve method in a later year, the year in which the change is made.

SEC. 9. BANKS ON SPECIFIC CHARGE-OFF METHOD

Where a bank on the specific charge-off method of accounting for bad debts desires to change to the reserve method, application to make such a change shall be made in the manner prescribed by section 3 of Revenue Procedure 64-51, I. R. B. 1964-50, 95, but the amount of the reserve at the end of the year of change and subsequent years shall be determined in accordance with the provisions of this Revenue Ruling.

SEC. 10. EFFECTIVE DATE

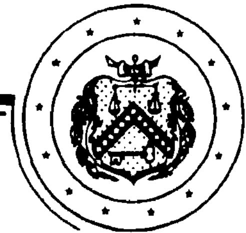
The provisions of this Revenue Ruling are applicable for taxable years ending after December 31, 1964.

SEC. 11. EFFECT ON OTHER DOCUMENTS

Mimeograph 6209, C. B. 1947-2, 26, and Revenue Ruling 54-148, C. B. 1954-1, 60, are hereby superseded. Section 4.02 of Revenue Procedure 64-51, I. R. B. 1964-50, 95, (relating to change in accounting method) and Revenue Ruling 57-210, C. B. 1957-1, 94, Revenue Ruling 58-259, C. B. 1958-1, 116, Revenue Ruling 57-509, C. B. 1957-2, 145, Revenue Ruling 63-122, C. B. 1963-2, 98, and G. C. M. 25605, C. B. 1948-1, 38,(relating to the term "loans") are hereby modified to remove therefrom the references to Mimeograph 6209 and Revenue Ruling 54-148, and substitute in place thereof reference to this Revenue Ruling for taxable years ending after December 31, 1964.

END

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 2, 1965

FOR RELEASE A.M. NEWSPAPERS,
Tuesday, March 16, 1965.

March 15, 1965

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 December 17, 1964, and the other series to be dated March 18, 1965, which were offered on March 10, were opened at the Federal Reserve Banks on March 15. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, 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 June 17, 1965		:	182-day Treasury bills maturing September 16, 196	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equ Annual Rate
High	99.014	3.901%	:	97.985	3.986%
Low	99.007	3.928%	:	97.982	3.992%
Average	99.010	3.917% 1/	:	97.983	3.990% 1

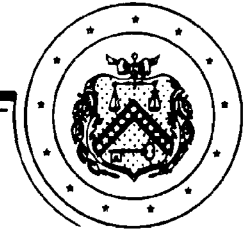
36 percent of the amount of 91-day bills bid for at the low price was accepted
63 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 28,953,000	$ 18,585,000	:	$ 33,316,000	$ 3,316,
New York	1,458,245,000	703,549,000	:	1,658,279,000	714,983,
Philadelphia	31,768,000	19,768,000	:	13,193,000	5,193,
Cleveland	31,800,000	31,800,000	:	67,361,000	14,804,
Richmond	15,039,000	15,039,000	:	3,672,000	3,580,
Atlanta	38,048,000	29,886,000	:	21,799,000	12,281,
Chicago	282,325,000	136,145,000	:	269,495,000	63,985,
St. Louis	51,438,000	43,910,000	:	14,859,000	10,585,
Minneapolis	23,632,000	22,152,000	:	9,500,000	5,519,
Kansas City	24,324,000	23,684,000	:	15,629,000	13,004,
Dallas	27,712,000	17,612,000	:	9,833,000	4,833,
San Francisco	235,198,000	138,638,000	:	214,588,000	150,540,
TOTALS	$2,248,482,000	$1,200,768,000 a/		$2,331,524,000	$1,002,623,

a/ Includes $276,436,000 noncompetitive tenders accepted at the average price of 99.
b/ Includes $102,756,000 noncompetitive tenders accepted at the average price of 97.
1/ On a coupon issue of the same length and for the same amount invested, the return these bills would provide yields of 4.01%, for the 91-day bills, and 4.13%, 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.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE A.M. NEWSPAPERS,
day, March 16, 1965.

March 15, 1965

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Low	99.007	3.928%	:	97.982	3.992%
Average	99.010	3.917% 1/	:	97.983	3.990% 1/

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iladelphia	31,768,000	19,768,000	:	13,193,000	5,193,000
leveland	31,800,000	31,800,000	:	67,361,000	14,804,000
ichmond	15,039,000	15,039,000	:	3,672,000	3,580,000
tlanta	38,048,000	29,886,000	:	21,799,000	12,281,000
icago	282,325,000	136,145,000	:	269,495,000	63,985,000
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BETA - MODIFIED

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 25, ~~(16)~~ 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 25, 1965 ~~(17)~~. Cash

~~Exhibit 2-A~~

~~BETA - MODIFIED~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 17, 1965

~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx~~
(1)

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two serie of Treasury bills to the aggregate amount of $ 2,200,000,000 (2), or thereabouts, for cash and in exchange for Treasury bills maturing March 25, 1965 (3), in the amoun of $ 2,108,740,000 (4), as follows:

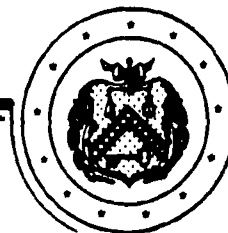
91 (5) -day bills (to maturity date) to be issued March 25, 1965 (6), in the amount of $ 1,200,000,000 (7), or thereabouts, representing an additional amount of bills dated December 24, 1964 (8), and to mature June 24, 1965 (9), originally issued in the amount of $ 1,004,907,000 (10), the additional and original bills to be freely interchangeable.

182 (11) -day bills, for $ 1,000,000,000 (12), or thereabouts, to be dated March 25, 1965 (13), and to mature September 23, 1965 (14).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 22, 1965 (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

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 17, 1965

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 $2,200,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 25,1965, in the amount of $2,108,740,000, as follows:

91-day bills (to maturity date) to be issued March 25, 1965, in the amount of $ 1,200,000,000, or thereabouts, representing an additional amount of bills dated December 24,1964, and to mature June 24,1965, originally issued in the amount of $1,004,907,000, the additional and original bills to be freely interchangeable.

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

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury 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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on March 25, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 25, 1965. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

oOo

Distribution by Christiana of GM Stock

Date	Type of Divestiture	Number of Shares
July 25, 1962	Sale	550,000
November 14, 1962	pro rata distribution (1/3 share GM per 1 share Christiana)	4,416,210
November 20, 1962	Sale	100,000
January 6, 1964	pro rata distribution (1/3 share GM per 1 share Christiana)	4,416,210
January 29, 1964	Sale	400,000
February 8, 1965	Exchange (3-1/4 shares GM for 1 share Christiana)	4,487,051
March 8, 1965	pro rata distribution (1/3 share GM per 1 share Christiana)	3,956,000
March 17, 1965	Sale	457,312
TOTAL		18,782,783

Total sales	1,507,312
Total pro rate	12,788,420
Total exchange	4,487,051
	18,782,783

Table I

Distribution by duPont of GM Stock

Date	Type of Divestiture	Total No. of Shares	Total No. of Shares Distributed to Christiana
July 9, 1962	pro rata distribution (1/2 share GM per 1 share duPont)	22,991,492	6,708,560
January 6, 1964	pro rata distribution (36/100 share GM per 1 share duPont)	16,557,983	4,830,163
January 29, 1964	Sale	409,000	
January 4, 1965	pro rata distribution (1/2 share GM per 1 share duPont)	23,002,678	6,708,506
October 4 thru December 5, 1964	Sale	38,847	
TOTALS		63,000,000	18,247,283

Total sales	447,847
Total pro rata	62,552,153
	63,000,000

suggested to me that it would be helpful if the services of Mr. Knight could be obtained as a temporary consultant. In view of Mr. Knight's knowledge of the legislative history of Public Law 87-403, and of the background of the 1962 ruling, it seemed logical that his advice would be helpful to the Commissioner in reaching a decision. I, therefore, telephoned Mr. Knight, who agreed to serve as a temporary consultant to the Commissioner of Internal Revenue on this matter.

Because of the Committee's interest in this matter, and because of Senator Gore's desire that I acquaint myself with the basic facts of the case, I have done so. I have gone into the matter enough to assure myself that the procedures used in developing the new ruling were entirely proper and to give me full confidence that the Commissioner issued the legally correct ruling. Beyond that Commissioner Cohen, who is here with me today, has a statement as to exactly what the two rulings covered and the reasons for their issuance. He is also prepared to answer detailed questions regarding the rulings or their issuance.

oOo

the General Motors shares received in exchange for Christiana was approximately twice as much as that on the exchanged shares of Christiana. Commissioner Cohen's letter dated March 15, 1965, to Chairman Byrd provides further details of the results of the exchange offer. I am attaching two tables which summarize the distributions by which du Pont and Christiana have divested their General Motors stock.

As I stated earlier, I have not played any substantive part in the issuance of rulings on these stock distributions. This was in accord with the basic and longstanding policy that the Secretary of the Treasury does not decide individual tax cases.

However, the Revenue Service is, of course, free to get Treasury help and advice whenever it so desires. In the case of both the 1962 rulings and the 1964 ruling, I am informed that such information and advice was sought regarding the legislative history of Public Law 87-403. In addition, Treasury revenue estimators were asked to assist the Revenue Service in verifying the reasonableness and accuracy of estimates of taxes payable or to be payable as a result of the distributions.

Last October, while Christiana's request for a modification of the 1962 ruling was under consideration, my tax staff

suggested to

receiving far more General Motors stock than they would have received under a straight pro rata distribution. Thus, there were fewer shares of General Motors stock left for the final pro rata distribution to taxable stockholders. As a result, the total tax payable by Christiana stockholders on the shares received in the two distributions was $56 million less than it would have been if all the shares had been distributed on a pro rata basis. The Government will recoup some part of this amount in capital gains taxes on future sales of Christiana stock by present shareholders of Christiana.

It is interesting to note the actual result of the non pro rata exchange offer. 1,380,631 shares of Christiana stock were exchanged for General Motors stock. Of that total, 210,079 were attributable to individuals, 282,760 to corporations and 887,792 to charitable and non-profit holders. On a percentage basis, only about two percent of Christiana's individually-owned shares took advantage of the exchange offer. The percentage of corporate-owned shares exchanged was 40 percent, while in the case of charitable holders, who were tax exempt in any event, the percentage was 65 percent.

The exchange was particularly attractive to charitable holders since, based on 1964 dividend payments, the income from

the General Motors

On the basis of the figures supplied by the companies, which have been checked by the Treasury estimating staff and by the Internal Revenue Service, it appears that the total revenues from the distributions will amount to an estimated $612 million, or $142 million more than the $470 million figure mentioned during debate on Public Law 87-403.

Christiana in January offered its stockholders the right to exchange their holdings of Christiana stock for 8,400,000 shares of General Motors stock held by it on the basis of 3-1/4 shares of General Motors for each share of Christiana. 4,487,051 shares of General Motors stock were exchanged for 1,380,631 shares of Christiana. Thereafter, another 3,956,000 shares of General Motors stock were distributed pro rata to Christiana stockholders.

It should be made perfectly clear that the non pro rata distribution carried out by Christiana was a taxable exchange and offered no special tax benefits whatsoever to those who took advantage of it. However, there were indirect tax benefits to the Christiana stockholders who did not accept the exchange offer. They flowed from the fact that tax exempt charitable holders of Christiana stock found the offer attractive and exchanged substantial quantities of their holdings, thus

receiving far

without offering any shares in exchange for or redemption of du Pont shares, and Christiana made two sizable pro rata distributi before applying for modification of the ruling.

In August, 1964, Christiana applied for a modification of its 1962 ruling that would permit it to offer to its stockholders a non pro rata exchange of General Motors stock for Christiana stock and still retain the benefit of the 1962 ruling.

In December, 1964, after he had satisfied himself that the Government would receive at least $470 million in revenue, I am informed that the Acting Commissioner issued a new ruling which removed the condition against non pro rata distributions in the form of exchanges or redemptions by Christiana. It is this ruling which is the subject of today's hearing.

I am informed that Mr. Knight, who served as a temporary consultant to the Acting Commissioner on the December, 1964, ruling, recommended that the condition he had originally proposed be removed. I understand it was Mr. Knight's view that the condition had served to protect the revenue of the Government and was no longer justified. Mr. Knight is here today at your invitation and is prepared to discuss his recommendation with you.

Except for a final public sale of 457,312 shares of General Motors stock by Christiana, all the distributions have now been completed.

On the basis

I am informed that the Commissioner took this action in his 1962 ruling largely on the recommendation of the then General Counsel of the Treasury, Mr. Robert H. Knight, who had represented the Treasury in the Congressional hearings on Public Law 87-403. The reason for Mr. Knight's recommendation was that when Public Law 87-403 was being considered by the Senate, representations were made on behalf of du Pont that the distribution of General Motors stock under the provisions of the pending bill would result in very substantial revenue to the Government. A figure as high as $470 million was mentioned Since non pro rata distribution of General Motors stock would be less likely to yield revenues as high as $470 million than pro rata distribution, Mr. Knight recommended that the Service's ruling be on the condition that no non pro rata distributions be made even though such distributions had been specifically permitte by the order of the District Court. When the Commissioner of Internal Revenue accepted Mr. Knight's recommendation, I am informed that Christiana protested the inclusion of the condition in the ruling and specifically reserved the right to seek reconsideration at a later date.

Du Pont has completed its divestiture of General Motors stock

without offering

Christiana to dispose of General Motors stock by any or all of three methods: (1) sale; (2) non pro rata exchange for Christiana stock; or (3) pro rata distribution. In addition, the Court held that certain members or connections of the du Pont family and institutions controlled by them would have to dispose of any General Motors stock they might receive from Christiana. They were given ten years to complete this disposition and during that period they could not vote their General Motors stock.

After the decision of the District Court, which was accepte by all parties, including the Government, I am informed that both du Pont and Christiana requested rulings from the Commissio of Internal Revenue as assurance that their planned distribution of General Motors shares would, among other things, come within the provisions of Public Law 87-403. I am further told that the Commissioner, in the exercise of his lawful discretion, determined to include in the Christiana ruling letter issued in 1962, a condition that the ruling would be of no force and effec if Christiana entered into any non pro rata exchange of stock. Thus, if Christiana wanted the benefit of the ruling, it could make only direct sales and pro rata distributions.

I am informed

family listed in the final judgment of the U. S. District Court in Chicago directly or indirectly own or control about 50 percent of Christiana. As this Committee knows, the ruling that is the subject of this hearing stems from the landmark decision of the United States Supreme Court in the antitrust action prosecuted by the Government in the 1950's against the du Pont Company and others. In that decision the Court held the du Pont Company in violation of the antitrust laws and later ordered du Pont to divest itself of its holdings of General Motors stock.

While the U. S. District Court in Chicago was considering the terms of an order requiring the divestiture, Public Law 87-403 was enacted. It permitted modified tax treatment for the distributions of General Motors stock by du Pont and Christia This Committee in its report on the bill, the discussion of the bill on the Senate floor and President Kennedy when he signed the law, all made it clear that the tax treatment provided for in the bill was not intended to affect in any way the terms of the Court's divestiture order, which was strictly an antitrust matter.

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STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
10:00 A.M., MARCH 17, 1965

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The District Court in its final decree ordered Christiana to divest itself within three years of all General Motors stock held or received from du Pont. It specifically permitted

Christiana to dispose of General Motors stock by any or all of three methods: (1) sale; (2) _non pro rata_ exchange for Christiana stock; or (3) _pro rata_ distribution. In addition, the Court held that certain members or connections of the du Pont family and institutions controlled by them would have to dispose of any General Motors stock they might receive from Christiana. They were given ten years to complete this disposition and during that period they could not vote their General Motors stock.

After the decision of the District Court, which was accepted by all parties, including the Government, I am informed that both du Pont and Christiana requested rulings from the Commissioner of Internal Revenue as assurance that their planned distribution of General Motors shares would, among other things, come within the provisions of Public Law 87-403. I am further told that the Commissioner, in the exercise of his lawful discretion, determined to include in the Christiana ruling letter issued in 1962, a condition that the ruling would be of no force and effect if Christiana entered into any _non pro rata_ exchange of stock. Thus, if Christiana wanted the benefit of the ruling, it could make only direct sales and _pro rata_ distributions.

I am informed that the Commissioner took this action in his 1962 ruling largely on the recommendation of the then General Counsel of the Treasury, Mr. Robert H. Knight, who had represented the Treasury in the Congressional hearings on Public Law 87-403. The reason for Mr. Knight's recommendation was that when Public Law 87-403 was being considered by the Senate, representations were made on behalf of du Pont that the distribution of General Motors stock under the provisions of the pending bill would result in very substantial revenue to the Government. A figure as high as $470 million was mentioned. Since _non pro rata_ distribution of General Motors stock would be less likely to yield revenues as high as $470 million than _pro rata_ distribution, Mr. Knight recommended that the Service's ruling be on the condition that no _non pro rata_ distributions be made even though such distributions had been specifically permitted by the order of the District Court. When the Commissioner of Internal Revenue accepted Mr. Knight's recommendation, I am informed that Christiana protested the inclusion of the condition in the ruling and specifically reserved the right to seek reconsideration at a later date.

Du Pont has completed its divestiture of General Motors stock

without offering any shares in exchange for or redemption of du Pont shares, and Christiana made two sizable pro rata distributions before applying for modification of the ruling.

In August, 1964, Christiana applied for a modification of its 1962 ruling that would permit it to offer to its stockholders a non pro rata exchange of General Motors stock for Christiana stock and still retain the benefit of the 1962 ruling.

In December, 1964, after he had satisfied himself that the Government would receive at least $470 million in revenue, I am informed that the Acting Commissioner issued a new ruling which removed the condition against non pro rata distributions in the form of exchanges or redemptions by Christiana. It is this ruling which is the subject of today's hearing.

I am informed that Mr. Knight, who served as a temporary consultant to the Acting Commissioner on the December, 1964, ruling, recommended that the condition he had originally proposed be removed. I understand it was Mr. Knight's view that the condition had served to protect the revenue of the Government and was no longer justified. Mr. Knight is here today at your invitation and is prepared to discuss his recommendation with you.

Except for a final public sale of 457,312 shares of General Motors stock by Christiana, all the distributions have now been completed.

On the basis of the figures supplied by the companies, which have been checked by the Treasury estimating staff and by the Internal Revenue Service, it appears that the total revenues from the distributions will amount to an estimated $612 million, or $142 million more than the $470 million figure mentioned during debate on Public Law 87-403.

Christiana in January offered its stockholders the right to exchange their holdings of Christiana stock for 8,400,000 shares of General Motors stock held by it on the basis of 3-1/4 shares of General Motors for each share of Christiana. 4,487,051 shares of General Motors stock were exchanged for 1,380,631 shares of Christiana. Thereafter, another 3,956,000 shares of General Motors stock were distributed *pro rata* to Christiana stockholders.

It should be made perfectly clear that the *non pro rata* distribution carried out by Christiana was a taxable exchange and offered no special tax benefits whatsoever to those who took advantage of it. However, there were indirect tax benefits to the Christiana stockholders who did not accept the exchange offer. They flowed from the fact that tax exempt charitable holders of Christiana stock found the offer attractive and exchanged substantial quantities of their holdings, thus

receiving far more General Motors stock than they would have received under a straight *pro rata* distribution. Thus, there were fewer shares of General Motors stock left for the final *pro rata* distribution to taxable stockholders. As a result, the total tax payable by Christiana stockholders on the shares received in the two distributions was $56 million less than it would have been if all the shares had been distributed on a *pro rata* basis. The Government will recoup some part of this amount in capital gains taxes on future sales of Christiana stock by present shareholders of Christiana.

It is interesting to note the actual result of the *non pro rata* exchange offer. 1,380,631 shares of Christiana stock were exchanged for General Motors stock. Of that total, 210,079 were attributable to individuals, 282,760 to corporations and 887,792 to charitable and non-profit holders. On a percentage basis, only about two percent of Christiana's individually-owned shares took advantage of the exchange offer. The percentage of corporate-owned shares exchanged was 40 percent, while in the case of charitable holders, who were tax exempt in any event, the percentage was 65 percent.

The exchange was particularly attractive to charitable holders since, based on 1964 dividend payments, the income from

the General Motors shares received in exchange for Christiana was approximately twice as much as that on the exchanged shares of Christiana. Commissioner Cohen's letter dated March 15, 1965, to Chairman Byrd provides further details of the results of the exchange offer. I am attaching two tables which summarize the distributions by which du Pont and Christiana have divested their General Motors stock.

As I stated earlier, I have not played any substantive part in the issuance of rulings on these stock distributions. This was in accord with the basic and longstanding policy that the Secretary of the Treasury does not decide individual tax cases.

However, the Revenue Service is, of course, free to get Treasury help and advice whenever it so desires. In the case of both the 1962 rulings and the 1964 ruling, I am informed that such information and advice was sought regarding the legislative history of Public Law 87-403. In addition, Treasury revenue estimators were asked to assist the Revenue Service in verifying the reasonableness and accuracy of estimates of taxes payable or to be payable as a result of the distributions.

Last October, while Christiana's request for a modification of the 1962 ruling was under consideration, my tax staff

suggested to me that it would be helpful if the services of Mr. Knight could be obtained as a temporary consultant. In view of Mr. Knight's knowledge of the legislative history of Public Law 87-403, and of the background of the 1962 ruling, it seemed logical that his advice would be helpful to the Commissioner in reaching a decision. I, therefore, telephoned Mr. Knight, who agreed to serve as a temporary consultant to the Commissioner of Internal Revenue on this matter.

Because of the Committee's interest in this matter, and because of Senator Gore's desire that I acquaint myself with the basic facts of the case, I have done so. I have gone into the matter enough to assure myself that the procedures used in developing the new ruling were entirely proper and to give me full confidence that the Commissioner issued the legally correct ruling. Beyond that Commissioner Cohen, who is here with me today, has a statement as to exactly what the two rulings covered and the reasons for their issuance. He is also prepared to answer detailed questions regarding the rulings or their issuance.

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Table I

Distribution by duPont of GM Stock

Date	Type of Divestiture	Total No. of Shares	Total No. of Shares Distributed to Christiana
July 9, 1962	pro rata distribution (1/2 share GM per 1 share duPont)	22,991,492	6,708,560
January 6, 1964	pro rata distribution (36/100 share GM per 1 share duPont)	16,557,983	4,830,163
January 29, 1964	Sale	409,000	
January 4, 1965	pro rata distribution (1/2 share GM per 1 share duPont)	23,002,678	6,708,506
October 4 thru December 5, 1964	Sale	38,847	
TOTALS		63,000,000	18,247,283

Total sales	447,847
Total pro rata	62,552,153
	63,000,000

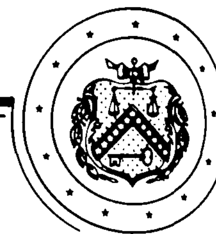
Table II

Distribution by Christiana of GM Stock

Date	Type of Divestiture	Number of Shares
July 25, 1962	Sale	550,000
November 14, 1962	pro rata distribution (1/3 share GM per 1 share Christiana)	4,416,210
November 20, 1962	Sale	100,000
January 6, 1964	pro rata distribution (1/3 share GM per 1 share Christiana)	4,416,210
January 29, 1964	Sale	400,000
February 8, 1965	Exchange (3-1/4 shares GM for 1 share Christiana)	4,487,051
March 8, 1965	pro rata distribution (1/3 share GM per 1 share Christiana)	3,956,000
March 17, 1965	Sale	457,312
TOTAL		18,782,783

Total sales	1,507,312
Total pro rate	12,788,420
Total exchange	4,487,051
	18,782,783

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE March 18, 1965

TREASURY DECISION ON SYNTHETIC DIAMOND POWDER OR DUST UNDER THE ANTIDUMPING ACT

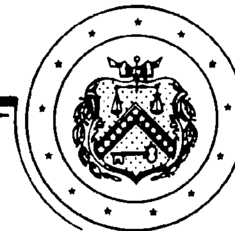
The Treasury Department has determined that synthetic diamond powder or dust from Ireland, sold by Industrial Grit Distributors (Shannon) Ltd., County Clare, Ireland, is not being, nor likely to be sold in the United States at less than fair value within the meaning of the Antidumping Act. This action is being taken pursuant to a "Notice of Intent to Discontinue Investigation and to Make Determination That No Sales Exist Below Fair Value," published in the Federal Register on February 2, 1965, because of price revisions with respect to synthetic diamond powder or dust imported from Ireland, sold by Industrial Grit Distributors (Shannon) Ltd., County Clare, Ireland, and that such fact is considered to be evidence that there are not, and are not likely to be, sales below fair value.

No persuasive evidence or argument to the contrary was presented within 30 days of the publication of the above-mentioned notice in the Federal Register.

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

The dollar value of imports of the involved merchandise received during the period June 1963 through September 1964 was approximately $1,100,000.

TREASURY DEPARTMENT



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responsibility for developing solutions. I remain confident, however, that solutions can and will be found, provided only that the United States discharges its own immediate responsibility to maintain the full strength of the dollar as the world's primary reserve currency by achieving an early balance in its international accounts. And with the help of you gentlemen that is exactly what we are going to do.

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provide the basis for timely agreements on ways and means for improving the present system well in advance of any urgent need.

In looking back on the past four years, and on the post-war period as a whole, there can be no question that the present system anchored on gold and the dollar, and effectively supplemented by the International Monetary Fund -- has served the world well. The extremes of inflation and deflation characteristic of other postwar periods have been avoided. Barriers to trade have been lowered or removed. And, in this environment, the vast productive capabilities of the free world have been released to the benefit of us all.

The challenge for the future is to build further on this system, recognizing its potential weaknesses and shortcomings, but preserving the elements of strength and flexibility that have contributed so much to our progress.

In this area, as in the area of adjusting capital flows, I have no fixed blueprint to offer to those who will share the

no longer be an American payments deficit pumping dollars into the reserves of other countries. So the thrust of our thinking has been to find the best way of divulging supplementary means of providing the liquidity that is likely to be needed. We feel that this can only be done gradually and by building on what we have. We emphatically disagree with the thesis recently propounded [illegible] some which would have us all turn back and embrace an outmoded and highly restrictive system -- a system that would surely cripple the growth of international trade and commerce as our deficit was ended.

Under the circumstances, with these broad differences of approa any final resolution of the variety of issues that have been raised seems to me highly unlikely until the United States has successfully restored its own payments to balance. As that is done it will becom less and less easy to ignore the potential need for supplementary sources of reserve assets and international credit facilities. Mean while, difficult and time consuming technical studies are well under under the auspices of the Group of Ten, helping to clarify the issue and evaluate alternative techniques. These studies will, I believe,

of generating international liquidity in adequate, but not excessive amounts as world trade and production increases over the years ahead. This much clearly emerged from the studies of the Group of Ten and the International Monetary Fund last year.

But in recent months, there has been little progress toward more concrete agreement on methods and approaches. The pronounced divergences in view that have become evident can, I believe, be traced in good part to quite different assumptions about the relationship of international monetary reform to the current United States payments deficit.

The overriding need, in one European view, is to develop a mechanism which would force a prompt end to our payments deficits. We fully agree with these European friends on the necessity for achieving early balance in our international accounts. And we intend to achieve this goal by our own actions, which now cover all aspects of our payments problem. But, in assessing the problems of the international monetary system, our concern and that of a number of other countries has been to look toward the future, when there will

But the success of our present program does not, of course, meet the basic problem. The nations of the free world, working together, must develop better means for influencing capital flows within a basic framework of free markets and national objectives -- and without placing intolerable burdens either upon monetary policy or upon the resources of the international monetary system.

We must be under no illusion that a different or improved international monetary system could in any way eliminate the need for adjusting these flows. But these two questions are nonetheless related, for one of the basic functions of the international moneta system is to provide sufficient means for financing deficits and surpluses to permit the working out of an orderly process of adjust

This linkage between the process of adjustment and the international monetary system seems to me to be at the source of much of the confusion and difficulty evident in recent international efforts to develop a common approach toward the further evolution o our international payments system. All the major countries are ful agreed, I believe, about the need for developing an assured method

environment for investment within the United States through tax reduction and sustained growth, together with the development of far larger, far more efficient and far more flexible capital market abroad. While there has been some encouraging progress in both of these directions, much more remains to be done.

These are, of course, long-run measures, and their influence o capital flows must be expected to emerge only slowly. For the time being, the existing disequilibrium -- and the urgency of reducing our deficit -- has required that we seek the cooperation of our banl and other financial institutions, as well as of our industrial firm in voluntarily reducing the flow of capital abroad. The response o those asked to participate in this voluntary program has been gratifying. The effects are already clearly visible both in the foreign exchange markets and in our preliminary payments statistics which point to a sharp and favorable change since mid February. Bu two swallows don't make a summer. We need a considerable period of balance to offset the deficits of the past. We know we can count o your cooperation in achieving this vitally needed result.

To cite these limitations and difficulties in the use of monetary policy is not, of course, to say that monetary policy does not have a useful and essential role to play in helping the adjustment process in the United States, as in other countries. It has played such a role, is playing now, and will continue to do so in the future. In fact, as I suggested earlier, one of our chief reasons for relying primarily upon fiscal policy to stimulate the domestic economy was to give monetary policy additional freedom in coping with our balance of payments problem. And I can assure you that monetary policy remains fully available for further use should the need arise. But I see no realistic prospect that the full burden for achieving a permanent international adjustment in capital flows can reasonably be thrust on American monetary policy alone either now or in the foreseeable future.

Instead, as I have suggested before to this group, the only really satisfactory long range solution to our present problem of excessive capital outflows lies in achieving a more attractive

It might, of course, be argued that extremely tight money would be able to do the job if continued over a long enough period. Such a policy rests on the highly doubtful assumption that in spite of our huge volume of savings it would be technically feasible -- perhaps by drastically reducing the money supply -- to raise the general level of our bank and long-term interest rates by the 1-1/2 to 2 percent that would be needed to achieve interest rate parity with Europe. But even granting that assumption, such a policy would surely be self-defeating. Before it could achieve the intere rate objective, the extreme restriction of credit would surely move us toward domestic recession, and at a time when our economy is already failing to use its resources to the full. A recession woul in turn, delay our fundamental aim of creating a more favorable climate for investment in the United States. At the same time, it would rapidly create forces for easy money that would be likely to prove irresistible. Thus the end result would ~~only be~~ an aggravati of our balance of payments problem.

In this setting we could not expect moderately tighter monetary policies to bring the needed reduction in the outflow of long-term funds abroad. The disparities in the structure of the capital markets of our different countries are simply too great to permit us to rely heavily on that approach toward adjustment. Much more is needed to bring interest rates here and in other industrialized countries into the rough alignment that is required if we are to put an end to the destabilizing types of capital flows that have characterized the past two years.

Another indication of the strength of our longer-term markets is that, over the past four years, they have not merely provided the vast amount of funds necessary to support high levels of homebuilding, a remarkable expansion in business investment, and the rapidly growing needs of our states and localities. They have also provided funds to the Government, equal to the entire $28.8 billion Federal deficit during the first four years of this Administration. During that period more than that amount was placed in savings bonds and marketable debt maturing in over five years. This achievement is reflected in the increase of almost one year or 20 percent in the average length of the marketable debt to a level last seen in mid 1956.

pressures among institutions with a wide variety of investment options, permit funds to flow promptly from one sector of our economy to another in response to changing demands. And, a long history of confidence in our currency, further fortified by the stability of our prices in recent years, has encouraged individuals and investment institutions to commit funds freely at long-term.

As a result of the pressure of the ~~enormous~~ volume of private savings seeking investment in our market, our long-term interest rate structure has remained essentially stable during the past four years, even though money market rates have risen by 1-1/2 ~~to 2~~ perc to a range of 4 to 4-1/2 percent. As a result, the differential between short- and long-term rates has almost disappeared. Neverth the bond market has continued to absorb a record volume of long-term financing at stable rate levels.

the loan charges payable by local borrowers. And, faced with constricted internal markets, and thus denied a full range of fiscal and monetary tools, the authorities themselves often find it essential to pursue essentially domestic credit objectives -- and in some instances even to finance internal budgetary needs -- through adjustments in external flows of funds. Sometimes this is done by borrowing directly from abroad and sometimes by seeking to influence the external borrowing or placement of funds by their commercial banks.

The sheer size of the United States economy and the tremendous volume of ~~transactions flowing through~~ funds raised in our credit markets -- estimated last year at over $70 billion -- help account for the much greater fluidity of our markets and their ability to adjust to, and absorb, large domestic or foreign demands with relative ease. But it is not a question of size alone. The relative freedom of the market mechanism, and the intensity of competitive

protection for citizens that in the United States is to a much large extent through private insurance and private industry. But, it is also a reflection, in many instances, of a conscious desire to provide special preferences to one major group of borrowers or another, and to maintain a high degree of Government control of national economic development. In either case, the natural result is to leave those businesses and other borrowers that must look to the remainder of the market more or less perpetually starved for funds, and with an impelling desire to seek needed capital from abroad.

All of these structural factors have contributed to long-term rates in Europe that throughout the postwar period have remained at levels that, in the light of past history, are unusually high. Official discount rates, and the money market rates more immediatel influenced by the official rates, often bear little relationship to

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This structural imbalance forced us to propose the Interest Equalization Tax during the summer of 1963. It effectively increased the cost of long-term portfolio credit to foreigners in developed countries. As a result the outflow of portfolio capital in 1964 dropped back to the 1960 level.

In the broadest sense, international differences in the rate of return on investment -- as these differences are reflected in interest rates and the intensity of demands for credit -- also lie behind the accelerating outflow of bank loans and other credits abroad. The plain fact is that foreign borrowers are willing and able to pay higher rates than domestic borrowers of similar credit standing with free access to the vast resources of the U. S. credit market, and foreign loans are thus in many instances more profitabl to the lending banks. The same is true for the placement of liquid funds by our corporations. But the massive outflow of these types of credit is also related to other deepseated structural characteristics of American and foreign capital markets.

As you know, with rare exceptions, foreign financial markets, even in countries with the most highly developed economies, lack a large and fluid short-term money market. Long-term bond markets are usually even more constricted. As a result, in most other coun there is simply no effective mechanism by which private borrowers

elsewhere, and our corporations sometimes find it attractive to pay higher prices in the acquisition of going concerns abroad than would seem reasonable to local investors.

Whatever the specific reason that particular direct investments abroad appear to a given company to be a more profitable use for its funds, the fact is we cannot effectively influence its judgment by simply reducing liquidity and tightening credit at home. So long as the basic difference in profitability remains, any gain in terms of reduced foreign investment will entail a substantially larger cost in terms of dampening domestic investment as well. There seems, therefore, little warrant either in theory or in practice for basing economic policy on a presumption that corporate managers will permit considerations of rate and availability of bank credit to affect their decisions on foreign investment, while leaving the domestic economy untouched.

more rapid growth of certain foreign markets; a desire to operate within a wall of external tariffs; proximity to readily available raw materials; and lower production costs -- to name some of the most obvious factors.

But perhaps most important of all is the fact that United States' industrial development so far exceeds that of any other country. This has brought with it a degree of competition that is simply unknown anywhere else in the world. Add to this our enormou flow of savings, and it is not surprising to find a general acceptan of lower rates of return on capital in this country than prevail elsewhere -- rates that only partially reflect differences in risks between investments here and abroad. At the same time, our businessmen and investors tend to place higher capital values on prospective earnings than is the case

with tigher monetary policy the simple, effective, and unique remed

Naturally, if one defines an excess of liquidity as synonymous with an excessive capital outflow, I suppose that position would be unassailable. But that kind of analysis bears no realistic relationship to the difficulty we face today. All it does is to define away the substance of a very real and tough problem.

In my judgment, it is much more enlightening -- although still not the entire answer -- to analyze the problem in terms of differences in investment profitability, rather than in terms of liquidity. Consider, for example, the outflow of funds for direct investment abroad, which has continued to rise, reaching $2.2 billion in 1964. At the present time, many American firms clearly believe that a portion of their available resources can be most profitably invested in subsidiaries abroad. That calculation rests on a variety of familiar considerations -- the

banks have actually operated with a small net borrowed reserve position. Corporate liquidity ratios have ~~dropped to~~ the lowest levels ~~more than~~ a quarter century. At the ~~same time, the Inter~~ Equalization Tax has effectively increased the cost of long-term portfolio credit to foreign borrowers in developed countries.

Clearly, credit has remained readily available in the United States throughout this period, and our bank lending and long-term interest rates are still low relative to most other countries. But it is also a palpable fact that rising investment opportunities and credit demands at home, combined with increases in the Federal Reserve discount rate and greater restraint in the provision of ban reserves, have noticeably reduced the ease of our market. Yet, instead of declining in response to these developments, the capital outflow has accelerated.

This fact alone casts into doubt the thesis of those who view the problem almost entirely in terms of "excessive" domestic liquic

at home could only aggravate the problem of capital outflows. By shifting much of the burden for promoting domestic expansion to fiscal policy and tax reduction, we have enabled our monetary authorities to move gradually, but steadily, to an essentially neutral monetary policy.

Our short-term market interest rates have climbed significantly since the 1960-1961 recession, responding largely to two half point increases in the discount rate. With the discount rate now at 4 percent, Treasury bill yields are within 1/2 percent or so of their postwar high -- a high reached only briefly during the period of very tight money in 1959. Loan/deposit ratios of banks have gradually climbed to a postwar peak, and other traditional measures of bank liquidity have confirmed a gradual tightening in their position. The Federal Reserve has rather steadily reduced the free reserves of the banking system, and, for the past month, the

and to reduce the balance of payments impact of our aid and defense programs had achieved visible and gratifying results. Yet, as you know, our deficit last year was once again disappointingly large, primarily because capital had poured out of the United States in unprecedented amounts -- in significant part to the strong surplus countries of Western Europe. The recent Annual Report of the Monet. Commission of the European Economic Community highlighted this poin noting that an improvement ~~[illegible]~~ of about $3 billion in United States transactions for goods and services and government accounts largely offset by a $2 billion increase in private capital outflows Actually, ~~the private capital outflow of $6.2 billion in 1964 and~~ $ ~~billion larger than in~~ 1960 and $1.9 ~~billion larger than in 1963.~~

Within the basic limitations set by the needs of an under-employed domestic economy, the United States throughout the last four years has been alert to the fact that excessively easy money

that impede the entire process of restoring balance in the payments of deficit and surplus countries alike.

The Group of Ten, in their recent study of the international monetary system, concluded unamimously that ways must be found to improve the process of balance of payments adjustment. The United States wholeheartedly joined in that conclusion and welcomes the systematic studies of this matter now underway in Working Party III of the OECD. However, if these studies are to have truly useful results they must face up to the stubborn and extremely difficult problem posed by the deep structural imbalances in the world's capital markets that have enormously complicated the smooth functioning of the adjustment mechanism.

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~~DRAFT #3 -- 3/18/65~~

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE 13TH ANNUAL MONETARY CONFERENCE
OF THE AMERICAN BANKERS ASSOCIATION
AT PRINCETON INN, PRINCETON, NEW JERSEY
FRIDAY, MARCH 19, 1965, 12:30 P.M., EST

This is the fourth year in which I have had the special privilege of addressing this Conference of distinguished leaders in the world of finance. These have been years of remarkable innovation in financial practices and policies -- public and private both within the United States and abroad. Internationally, we have fashioned a framework for mutual consultation and cooperation that measured against our common objectives of steady growth and flourishing world trade, coupled with substantial price stability - has proved both durable and viable.

But, despite much excellent progress, our international financ system still suffers from a disturbing disequilibrium -- one I have discussed with you on previous occasions. This is the seemingly chronic tendency for capital to flow between countries in directior and in amounts

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

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The Group of Ten, in their recent study of the international monetary system, concluded unanimously that ways must be found to improve the process of balance of payments adjustment. The United States wholeheartedly joined in that conclusion and welcomes the systematic studies of this matter now underway in Working Party III of the OECD. However, if these studies are to have truly useful results they must face up to the stubborn and extremely difficult problem posed by the deep structural imbalances in the world's capital markets that have enormously complicated the smooth functioning of the adjustment mechanism.

The nature of the problem is clearly illustrated by developments in our balance of payments last year. By 1964, the measures we had undertaken to improve our trade position and to reduce the balance of payments impact of our aid and defense programs had achieved visible and gratifying results. Yet, as you know, our deficit last

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year was once again disappointingly large, primarily because capital had poured out of the United States in unprecedented amounts -- in significant part to the strong surplus countries of Western Europe. The recent Annual Report of the Monetary Commission of the European Economic Community highlighted this point, noting that an improvement of about $3 billion in United States transactions for goods and services and government accounts had been largely offset by a $2 billion increase in private capital outflows.

Within the basic limitations set by the needs of an under-employed domestic economy, the United States throughout the last four years had been alert to the fact that excessively easy money at home could only aggravate the problem of capital outflows. By shifting much of the burden for promoting domestic expansion to fiscal policy and tax reduction, we have enabled our monetary authorities to move gradually, but steadily, to an essentially neutral monetary policy.

Our short-term market interest rates have climbed significantly since the 1960-1961 recession, responding largely to two half point increases in the discount rate. With the discount rate now at 4 percent, Treasury bill yields are within 1/2 percent or so of their postwar high -- a high reached only briefly during the period of very tight money in 1959. Loan/deposit ratios of banks have gradually climbed to a postwar peak, and other traditional measures of bank liquidity have confirmed a gradual tightening in their position. The Federal Reserve has rather steadily reduced the free reserves of the banking system, and, for the past month, the banks have actually operated with a small net borrowed reserve position. While corporate cash flow has remained high, liquidity ratios have reached the lowest levels in a quarter of a century.

Clearly, credit has remained readily available in the United States throughout this period, and our bank lending and long-term interest rates are still low relative to most other countries. But it is also a palpable fact that rising investment opportunities and credit demands at home, combined with increases in the Federal Reserve discount rate and greater restraint in the provision of bank reserves, have noticeably reduced the ease of our market. Yet, instead of declining in response to these developments, the capital outflow has accelerated.

This fact alone casts into doubt the thesis of those who view the problem almost entirely in terms of "excessive" domestic liquidity, with tighter monetary policy the simple, effective, and unique remedy. Naturally, if one defines an excess of liquidity as synonymous with an excessive capital outflow, I suppose that position would be unassailable. But that kind of analysis bears no realistic relationship to the difficulty we face today. All it does is to define away the substance of a very real and tough problem.

In my judgment, it is much more enlightening -- although still not the entire answer -- to analyze the problem in terms of differences in investment profitability, rather than in terms of liquidity. Consider, for example, the outflow of funds for direct investment abroad, which has continued to rise, reaching $2.3 billion in 1964. At the present time, many American firms clearly believe that a portion of their available resources can be most profitably invested in subsidiaries abroad. That calculation rests on a variety of familiar considerations -- the more rapid growth of certain foreign markets; a desire to operate inside a wall of external tariffs; proximity to readily available raw materials; and lower production costs -- to name some of the most obvious factors.

But perhaps most important of all is the fact that United States' industrial development so far exceeds that of any other country. This has brought with it a degree of competition that is unknown anywhere else in the world. Add to this our enormous flow of savings, and it is not surprising to find a general acceptance of lower rates of return on capital in this country than prevail elsewhere -- rates that only partially reflect differences in risks between investments here and abroad. At the same time, our businessmen and investors tend to place higher capital values on prospective earnings than is the case elsewhere, and our corporations at times find it attractive to pay higher prices in the acquisition of going concerns abroad than would seem reasonable to local investors.

Whatever the specific reason that particular direct investments abroad appear to a given company to be a more profitable use for its funds, the fact is that we cannot effectively influence this judgment by simply reducing liquidity and tightening credit at home. So long as the basic difference in profitability remains, any gain in terms of reduced foreign investment will entail a substantially larger cost in terms of dampening domestic investment as well.

There seems, therefore, little warrant either in theory or in practice for basing economic policy on a presumption that corporate managers will permit considerations of the rate and availability of bank credit to affect their decisions on foreign investment, while leaving the domestic economy untouched.

In the broadest sense, international differences in the rate of return on investment -- as these differences are reflected in interest rates and the intensity of demands for credit -- also lie behind the accelerating outflow of bank loans and other credits abroad. This structural imbalance forced us to propose the Interest Equalization Tax during the summer of 1963. It effectively increased the cost of long-term portfolio credit to foreigners in developed countries. As a result the outflow of long-term portfolio capital in 1964 dropped back to the 1960 level.

The plain fact is that foreign borrowers are willing and able to pay higher rates than domestic borrowers of similar credit standing with free access to the vast resources of the American credit market, and foreign loans are thus in many instances more profitable to the lending banks. The same is true for the placement of liquid funds by our corporations. But the massive outflow of these types of credit is also related to other deepseated structrual characteristics of American and foreign capital markets.

As you know, with rare exceptions, foreign financial markets, even in countries with the most highly developed economies, lack a large and fluid short-term money market. Long-term bond markets are usually even more constricted. As a result, in most other countries there is simply no effective mechanism by which private borrowers and lenders -- and to a very considerable extent governments -- can readily raise or dispose of large sums in short periods of time in the open market. Instead, the available funds within each country are channeled almost entirely through a relatively few big institutions dealing with individual customers on a personalized basis. These institutional markets are fairly well insulated from the short-term money market, and frequently respond only sluggishly if at all to the actions of the monetary authorities.

The fluidity and size of the market available to most private borrowers abroad is further impaired by the fact that many foreign governments preempt a very large fraction of the savings available for investment, or direct it into officially sanctioned uses,

frequently with a sizeable subsidy for preferred borrowers added along the way. This is partly a natural result of basic social decisions to provide, through Government social insurace programs, the protection for citizens that we in the United States furnish to a much larger extent through private insurance and private industry. But, it is also a reflection, in many instances, of a conscious desire to provide special preferences to one major group of borrowers or another, and to maintain a high degree of Government control of national economic development. In either case, the natural result is to leave those businesses and other borrowers that must look to the remainder of the market more or less perpetually starved for funds, and with an impelling desire to seek needed capital from abroad.

All of these factors have contributed to a structure of long-term interest rates in Europe that, with only one or two exceptions, has remained throughout the postwar period at levels that, in the light of past history, are unusually high. Official discount rates, and the money market rates more immediately influenced by the official rates, often bear little relationship to the loan charges payable by local borrowers. And, faced with constricted internal markets, and thus denied a full range of fiscal and monetary tools, the authorities themselves often find it essential to pursue essentially domestic credit objectives -- and in some instances even to finance internal budgetary needs -- through adjustments in external flows of funds. Sometimes this is done by borrowing directly from abroad and sometimes by seeking to influence the external borrowing or placement of funds by their commercial banks.

The sheer size of the United States economy and the tremendous volume of funds raised in our credit markets -- estimated last year at over $70 billion -- help account for the much greater fluidity of our markets and their ability to adjust to, and absorb, large domestic or foreign demands with relative ease. But it is not a question of size alone. The relative freedom of the market mechanism, and the intensity of competitive pressures among institutions with a wide variety of investment options, permit funds to flow promptly from one sector of our economy to another in response to changing demands. And, a long history of confidence in our currency, further fortified by the stability or our prices in recent years, has encouraged individuals and investment institutions to commit funds freely at long-term.

As a result of the pressure of the huge volume of private savings seeking investment in our market, our long-term interest rate structure has remained essentially stable during the past four years, even though money market rates have risen by 1-1/2 percent

or more to a range of 4 to 4-1/2 percent. As a result, the differential between short- and long-term rates has almost disappeared. Nevertheless, the bond market has continued to absorb a record volume of long-term financing at stable rate levels.

Another indication of the strength of our longer-term markets is that, over the past four years, they have not merely provided the vast amount of funds necessary to support high levels of homebuilding, a remarkable expansion in business investment, and the rapidly growing needs of our states and localities. They have also provided funds to the Government, equal to the entire $28.8 billion Federal deficit during the first four years of this Administration. During that period more than that amount was placed in savings bonds and marketable debt maturing in over five years. This achievement is reflected in the increase of almost one year or 20 percent in the average length of the marketable debt to a level last seen in mid-1956.

In this setting we could not expect moderately tighter monetary policies to bring the needed reduction in the outflow of long-term funds abroad. The disparities in the structure of the capital markets of our different countries are simply too great to permit us to rely heavily on that approach toward adjustment. Much more is needed to bring interest rates here and in other industrialized countries into the rough alignment that is surely necessary if we are to put a permanent end to the destabilizing capital flows that have characterized the past two years.

It might, of course, be argued that extremely tight money would be able to do the job if continued over a long enough period. Such a policy rests on the highly doubtful assumption that in spite of our huge volume of savings it would be technically feasible -- perhaps by drastically reducing the money supply -- to raise the general level of our bank and long-term interest rates by the 1-1/2 to 2 percent that would be needed to achieve interest rate parity with Europe.

But even granting that assumption, such a policy would surely be self-defeating. Before it could achieve the interest rate objective, the extreme restriction of credit would surely move us toward domestic recession, and at a time when our economy is already failing to use its resources to the full. A recession would, in turn, delay our fundamental aim of creating a more favorable climate for investment in the United States. At the same time, it would rapidly create forces for easy money that would be likely to prove irresistible. Thus the end result would not be an improvement but rather an aggravation of our balance of payments problem.

To cite these limitations and difficulties in the use of monetary policy is not, of course, to say that monetary policy does not have a useful and indeed essential role to play in helping the adjustment process in the United States, as in other countries. It has played such a role, is playing such a role now, and will continue to do so in the future. In fact, as I suggested earlier, one of our chief reasons for relying primarily upon fiscal policy to stimulate the domestic economy was to give monetary policy additional freedom in coping with our balance of payments problem. And I can assure you that monetary policy remains fully available for further use should the need arise. But I see no realistic prospect that the full burden for achieving a permanent international adjustment in capital flows can reasonably be thrust on American monetary policy alone either now or in the foreseeable future.

Instead, as I have suggested before to this group, the only really satisfactory long range solution to our present problem of excessive capital outflows lies in achieving a more attractive environment for investment within the United States through tax reduction and sustained growth, together with the development of far larger, far more efficient and far more flexible capital markets abroad. While there has been some encouraging progress in both of these directions, much more remains to be done.

These are, of course, long-run measures, and their influence on capital flows must be expected to emerge only slowly. For the time being, the existing disequilibrium -- and the urgency of reducing our deficit -- has required that we seek the cooperation of our banks and other financial institutions, as well as of our industrial firms, in voluntarily reducing the flow of capital abroad. The response of those asked to participate in this voluntary program has been most gratifying. The effects are already clearly visible both in the foreign exchange markets and in our preliminary payments statistics which point to a sharp and favorable change since mid-February. But two swallows don't make a summer. We need a considerable period of balance to offset the deficits of the past. We know we can count on your cooperation in achieving this vitally needed result.

But the success of our present program does not, of course, meet the basic problem. The nations of the free world, working together, must develop better means for influencing capital flows within a basic framework of free markets and national objectives -- and without placing intolerable burdens either upon monetary policy or upon the resources of the international monetary system.

We must be under no illusion that a different or improved international monetary system could in any way eliminate the need for adjusting these flows. But these two questions are nonetheless related, for one of the basic functions of the international monetary system is to provide sufficient means for financing deficits and surpluses to permit the working out of an orderly process of adjustment.

This linkage between the process of adjustment and the international monetary system seems to me to be at the source of much of the confusion and difficulty evident in recent international efforts to develop a common approach toward the further evolution of the international payments system. All the major countries are fully agreed, I believe, on the need for developing an assured method of generating international liquidity in adequate, but no excessive, amounts as world trade and production increases over the years ahead. This much clearly emerged from the studies of the Group of Ten and the International Monetary Fund last year.

But in recent months, there has been little progress toward more concrete agreement on methods and approaches. The pronounced divergences in view that have become evident can, I believe, be traced in good part to quite different assumptions about the relationship of international monetary reform to the current United States payments deficit.

The overriding need, in one European view, is to develop a mechanism which would force a prompt end to our payments deficits. We fully agree with these European friends on the necessity for achieving early balance in our international accounts. And we intend to achieve this goal by our own actions, which now for the first time cover all aspects of our payments problem.

But, in assessing the problems of the international monetary system, our concern and that of a number of other countries has been to look toward the future, when there will no longer be an American payments deficit pumping dollars into the reserves of other countries. So the thrust of our thinking has been to find the best way of developing supplementary means of providing the liquidity that is likely to be needed. We feel that this can only be done gradually and by building on what we now have. And we emphatically disagree with the thesis recently propounded in some quarters which would turn back the clock and embrace an outmoded and highly restrictive system -- a system that would surely cripple the growth of international trade and commerce as our deficit was ended.

Under the circumstances, with these broad differences of approach, any final resolution of the variety of issues that have been raised seems to me highly unlikely until the United States has brought its international payments into balance. As that is done it will become less and less easy to ignore the potential need for supplementary sources of reserve assets and international credit facilities. Meanwhile, difficult and time consuming technical studies are well underway under the auspices of the Group of Ten, helping to clarify the issues and to evaluate alternative techniques. These studies will, I believe, provide the basis for timely agreements on ways and means for improving the present monetary system well in advance of any urgent need.

In looking back on the past four years, and on the post-war period as a whole, there can be no question that the present system -- anchored on gold and the dollar, and effectively supplemented by the International Monetary Fund -- has served the world well. The extremes of inflation and deflation characteristic of other post-war periods have been avoided. Barriers to trade have been lowered or removed. And, in this environment, the vast productive capabilities of the free world have been released to the benefit of us all.

The challenge for the future is to build further on this system, recognizing its potential weaknesses and shortcomings, but preserving the elements of strength and flexibility that have contributed so much to our progress.

In this area, as in the area of adjusting capital flows, I have no fixed blueprint to offer to those who will share the responsibility for developing solutions. I remain confident, however, that solutions can and will be found, provided only that the United States discharges its own immediate responsibility to maintain the full strength of the dollar as the world's primary reserve currency by achieving an early balance in its international accounts. And with the help of you gentlemen that is exactly what we are going to do.

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are exempt from all taxation now or hereafter imposed on the principal or intere
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 whic
Treasury bills are originally sold by the United States is considered to be in-
terest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 195
the amount of discount at which bills issued hereunder are sold is not considere
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 in
clude in his income tax return only the difference between the price paid for su
bills, whether on original issue or on subsequent purchase, and the amount actu
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, p
scribe 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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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 ~~(10)~~ or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 31, 1965 ~~(11)~~, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31, 1965 ~~(12)~~. 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

~~Exhibit~~

~~XXXXX~~

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 18, 1965

~~XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX~~ (1)

TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $ 1,000,000,000 (2), or thereabouts, of 365 (3) -day Treasury bills, for cash and in exchange for Treasury bills maturing March 31, 1965 (4), in the amount of $1,001,464,000 (5), to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated March 31, 1965 (6), and will mature March 31, 1966 (7), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Thursday, March 25, 1965 (8). 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. (Notwithstanding the fact that these bills will run for 365 (9) days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) 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

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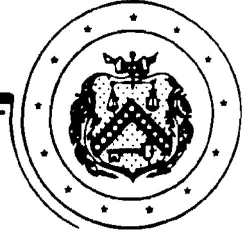
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 18, 1965

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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 expre reserves the right to accept or reject any or all tenders, in whole in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 31, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31, 1965. 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 th Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, bu are exempt from all taxation now or hereafter imposed on the principa 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 originall 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 nc considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capita 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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SUGGESTED COMMENTS TO BE MADE TO ALL PRESS REPRESENTATIVES TOMORROW, THURSDAY, MARCH 18, 1965, WHEN THE $250 MILLION GOLD LOSS WILL BE ANNOUNCED BY THE NEW YORK FEDERAL RESERVE

I would suggest that the Treasury provide the following information to all correspondents early tomorrow afternoon when the New York Fed reveals the $250 million drop in our gold stock.

The drop in the gold stock this week reflects almost entirely a replenishment of the Exchange Stabilization Fund to meet a French conversion of dollars into gold. The French purchase totals $231.5 million. $150 million of this represents the second half of the $300 million purchase contemplated by the French Government at the end of last year on the basis of its dollar holdings at that time; $81.5 million represents the settlement of the gain in French official reserves during February. This completes the French gold purchase program except for those amounts which the French Government has said it will undertake on the basis of reserve gains ~~over the~~ months ~~ahead.~~ With the completion of this transaction French Government dollar holdings are at a level equal in amount to French official debt to the United States ~~Government and~~ required working balances.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR USE AFTER 3:15 P.M.
THURSDAY, MARCH 18, 1965

TREASURY COMMENT ON GOLD STOCK
DROP ANNOUNCEMENT

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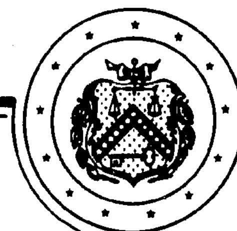
TREASURY DEPARTMENT



WASHINGTON, D.C.
March 22, 1965

FOR IMMEDIATE RELEASE

REORGANIZATION PLAN ANNOUNCED FOR
U.S. BUREAU OF CUSTOMS

A major program to reorganize the Bureau of Customs of the Treasury Department was announced yesterday by President Johnson. The President will send to Congress Reorganization Plan No. 1 of 1965, which calls for elimination of all positions within the Bureau now filled by Presidential appointment, and would establish the Customs Service organization on a career basis.

Treasury Secretary Douglas Dillon in providing further details of the Reorganization Plan today said that approval of the Plan would open the way for realignment and consolidation of many field activities. Six regional offices would be established with about 25 subordinate district offices. They would replace 113 independent field offices now reporting directly to headquarters in Washington, D.C. These moves would enable the agency to cut costs, eliminate much duplication of effort and strengthen the supervision of its many activities. The new regional commissioners will exercise substantial responsibility and authority delegated to them by the Commissioner along operational lines now established in headquarters.

Headquarters of the six new regional offices are scheduled to be in Boston, New York, Miami, New Orleans, San Francisco and Chicago. Secretary Dillon said that, following Congressional action, he expected to establish Region V with headquarters in San Francisco on September 1, 1965, as a beginning of the process of reorganizing and regrouping the Bureau's present field establishment. The tentative time table for establishment of the remaining five regions and headquarters is as follows: Region III, Miami, January 1966; Region IV, New Orleans, February 1966; Region I, Boston, March 1966; Region VI, Chicago, April 1966; and Region II, New York, May 1966. This schedule will allow time for evaluation of the experience gained in the San Francisco Region before the remaining five regions are created.

D-1543

Secretary Dillon said the changes were extremely important in putting into effect many other recommendations proposed by Treasury Department survey group which began its evaluation of the Customs Bureau in March, 1963.

The survey resulted in the issuance today of a 642-page report entitled "Customs -- An Evaluation of the Mission, Organization and Management." The approved changes recommended in that study are to be completed within three years.

A coordinating committee for review and implementation of recommendations has been established with members representing the Office of the Secretary and Bureau of Customs.

On the basis of a draft of the report, 52 recommendations have already been put into effect. The remaining recommendations are in process of implementation or still under study.

The changes proposed by the survey group would reduce the unit costs of Customs services to taxpayers and make possible the sorely-needed reduction of work backlog and the speed-up of entry appraisement, and other operations. By modernizing and improving the Customs Bureau's organization and administration and the management of its workload, the Bureau's missions of assessment and collection of import duties and taxes, the control of carriers persons, and articles entering or departing the United States, and its assistance to other Federal agencies dealing with international traffic and trade would be more effectively accomplished.

Secretary Dillon emphasized that none of the appraisement, collection or enforcement functions would be discontinued as a result of the reorganization.

The major findings and recommendations of the survey group's report relate to the following areas: organization; administrative management; entry and appraisement of merchandise; operation of laboratories; liquidation of entries; appeals and protests of decisions; "drawback", or refund of duties or taxes on certain commodities subsequent to their exportation; marine activities; the inspection and control of passengers, baggage and cargo; relations with other Government agencies; public information and communications; and the Bureau's bonding and penalty transactions.

The 52 recommendations already put into effect, mostly in the Washington, D.C., headquarters, have resulted in the consolidation of the responsibilities of seven divisions into four new major officies.

Also among the 230 recommendations made by the survey group are the following:

*Introduction of automatic data processing equipment to speed up Customs transactions.

*Change of the present policy requiring 100 percent examination of incoming passenger baggage.

*Consolidation of functions of classification, appraisement, and liquidation, thus expediting the entry and clearance of imported merchandise, reducing backlogs, eliminating delays, and improving Customs relations with the business community.

*A continuing program to assist Customs brokers in proper preparation of Customs entries; and stricter enforcement of entry requirements.

"Clearance of "artistic antiques," imported for personal use and not for sale, valued at $500 or less, by informal entry at all ports.

*Introduction of a single form for all documentation of ships -- a process which now requires a multiplicity of forms -- and new procedures for determining tonnages of vessels.

The newly issued report represents, in addition to the work of the Treasury survey group, the consideration of an Advisory Committee composed of officials of Treasury, the Customs Service, the Bureau of the Budget, and the U. S. Civil Service Commission.

The survey was announced on March 6, 1963, by Assistant Secretary of the Treasury James A. Reed and former Commissioner Philip Nichols, Jr., on instructions of Secretary Dillon. The survey group was headed by James H. Stover, Director of the Treasury's Office of Management and Organization.

Copies of the Report may be obtained from the Bureau of Customs at $3.50 per copy.

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FOR RELEASE TO A.M. PAPERS
MONDAY, MARCH 22, 1965

March 21, 1965

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

- -

THE WHITE HOUSE

President Johnson today announced his intention to submit to Congress this week a major plan of reorganization for the 175-year old Bureau of Customs of the Treasury Department which will improve its services to the public, ultimately save the taxpayers at least $9 million each year, and place customs personnel upon a wholly career basis.

Under Reorganization Plan No. 1 of 1965, the Bureau of Customs will be permitted to modernize its activities and establish strong regional and district supervisory positions.

All Customs positions to which appointments are now made by the President would be abolished, and all Bureau officials and employees would henceforth be appointed under the civil service laws. A total of 53 positions are affected.

The President stressed that people now holding these positions will be given consideration for suitable employment in the Customs Bureau under the civil service laws in any position for which they may be qualified.

"The Bureau of Customs is an old and respected arm of the Federal Government. Created in 1789 and consisting of many districts established by Congress as new territories opened and trade patterns evolved, its growth took place without particular relation to the overall organization," President Johnson stated. "Its basic structure has been little changed since its founding date. Today the current and growing emphasis on international trade and travel demands a more effective administration of the customs laws to serve that essential segment of our economy engaged in foreign trade and travel.

"It is my opinion that the betterments which can flow from Reorganization Plan No. 1 of 1965 will benefit our economy and contribute toward a smoother, more economical functioning of an

important Federal agency, all in line with the aims I expressed in my State of the Union Message to the Congress on January 4."

Reorganization Plan No. 1 of 1965 will be submitted to Congress under the authority of the Reorganization Act of 1949, as amended, and would become effective after sixty days of Congressional session if Congress does not disapprove.

Six regional offices with about 25 subordinate district offices, would take the place of the present pattern of 113 independent field activities now reporting directly to headquarters. This would materially cut costs, eliminate duplication of efforts and result in tighter management control.

Under the proposed reorganization, the headquarters for the six new regional offices will be in Boston, New York, Miami, New Orleans, San Francisco, and Chicago.

The present organization of the Bureau of Customs consists of headquarters in Washington, D. C., 25 major collection districts, and 22 smaller ones, 42 appraisement districts, 7 enforcement regions 7 comptroller districts, 9 laboratory districts, and the Customs Information Exchange.

Reorganization Plan No. 1 flows from a 642-page report entitled "Customs -- An Evaluation of the Mission, Organization and Management" based on a two-year study by a Treasury Department Survey Group.

None of the appraisement, collection or enforcement functions would be discontinued as a result of the proposed reorganization.

Salaries of the 53 positions to be abolished under the proposed reorganization range from $11,000 a year to $23,000 a year.

Principally, the proposed reorganization plan provides for abolition of all Offices of Collector of Customs, Comptroller of Customs, Surveyor of Customs, and Appraiser of Merchandise, to which appointments are now required to be made by the President by and with the consent of the Senate.

The Bureau of Customs, older than the Treasury Department of which it is a part, collects $1,800 million annually on a budget

of about $80 million. Its 9,300 personnel are spread out among 110 airports and about 355 ports and stations throughout the United States. Customs agents, port investigators, and inspectors guard the borders and the east, west, and gulf coasts against smuggling. Customs inspectors greet more than 180 million travellers entering the United States each year, and the Service performs a wide range of related duties for other Government agencies.

The annual savings expected, if all the major recommendations are put into effect, will total more than $11,000,000. Against this, there would be additional offsetting costs estimated at slightly more than $2,000,000, thus resulting in a net recurring annual savings figure of about $9,000,000. Most of these added costs will occur in the addition of new positions to effect desirable changes in management at headquarters and the consolidated regional offices, and to modernize procedures and practices.

A basic concept of the reorganization is to permit maximum use of the skill and talent of the career employees in the Customs Service. In view of Customs' constantly increasing workloads, it is not contemplated that there will be an overall reduction in employment.

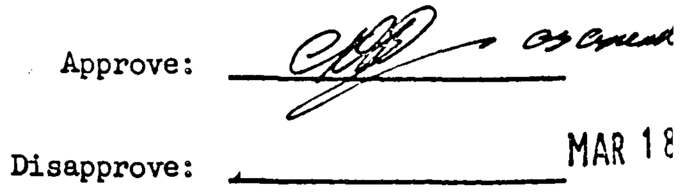
In the past 10 years there has been a 70 percent increase in imported merchandise and a 50 percent increase in international travel, with less than a 10 percent increase in Customs personnel strength. Customhouse brokers, who represent the importing community, have reportedly increased their staffs by 300 percent during the same period.

DRAFT PRESS RELEASE
FOR ~~NOVEMBER~~ March 22, 1965

Secretary of the Treasury Douglas Dillon today announced a drawing by the United States on the International Monetary Fund. The drawing in the amount of $75 million is the first made this year by the United States and is in equal amounts of German marks, Canadian dollars, and Italian lire.

Total drawings, since their inception in February 1964, now amount to the equivalent of $600 million in various foreign currencies. A sizable part of these drawings has been offset, however, by the drawings of United States dollars by other countries during the period. When other countries draw dollars from the Fund it restores the U. S. position and in effect amounts to repayment by the United States. As a result, the net reduction in United States drawings rights on the Fund has been [~~only~~] about $330 million.

The currency drawn is expected to be used, as in the past, for sale for dollars to other Fund members for their use in making repayments to the Fund over the next several months.

Approve: 

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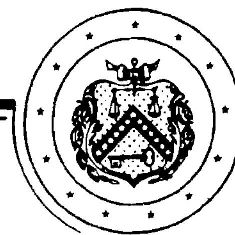
MAR 18

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 22, 1965

FOR IMMEDIATE RELEASE

U. S. MAKES FIRST 1965 DRAWING
FROM IMF

Secretary of the Treasury Douglas Dillon today announced a drawing by the United States on the International Monetary Fund. The drawing in the amount of $75 million is the first made this year by the United States and is in equal amounts of German marks, Canadian dollars, and Italian lire.

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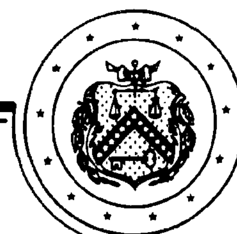
D-1544

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A.M. NEWSPAPERS,
Tuesday, March 23, 1965.

March 22, 1965

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 December 24, 1964, and the other series to be dated March 25, 1965, which were offered on March 17, were opened at the Federal Reserve Banks on March 22. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, 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 June 24, 1965		:	182-day Treasury bills maturing September 23, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.010	3.916%	:	97.989 a/	3.978%
Low	99.007	3.928%	:	97.983	3.990%
Average	99.009	3.922% 1/	:	97.986	3.984% 1/

a/ Excepting 1 tender of $50,000
62 percent of the amount of 91-day bills bid for at the low price was accepted
61 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	$ 28,863,000	$ 17,278,000	:	$ 41,737,000	$ 9,787,000
New York	1,517,701,000	644,507,000	:	1,445,225,000	735,995,000
Philadelphia	25,818,000	13,775,000	:	13,361,000	5,361,000
Cleveland	37,661,000	26,782,000	:	67,686,000	38,758,000
Richmond	12,500,000	12,200,000	:	5,053,000	5,003,000
Atlanta	39,994,000	25,569,000	:	18,549,000	14,999,000
Chicago	486,586,000	317,675,000	:	256,210,000	95,182,000
St. Louis	38,769,000	28,357,000	:	15,218,000	11,121,000
Minneapolis	21,789,000	13,977,000	:	11,416,000	9,221,000
Kansas City	30,796,000	29,188,000	:	9,364,000	8,364,000
Dallas	24,578,000	17,818,000	:	10,648,000	6,648,000
San Francisco	102,053,000	54,779,000	:	129,216,000	59,769,000
TOTALS	$2,367,108,000	$1,201,905,000 b/		$2,023,683,000	$1,000,208,000 c/

b/ Includes $237,845,000 noncompetitive tenders accepted at the average price of 99.009
c/ Includes $91,358,000 noncompetitive tenders accepted at the average price of 97.986
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 4.02%, for the 91-day bills, and 4.12%, 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-1545

STATEMENT OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BANKING AND CURRENCY COMMITTEE
10:00 A.M., MARCH 23, 1965

I am especially pleased that on this, my last appearance as Secretary of the Treasury before a Congressional Committee, I am here in behalf of legislation designed to strengthen such an outstandingly successful and important institution as the International Monetary Fund. I have with me today Mr. William B. Dale, U. S. Executive Director of the Fund, who will be able to answer any questions of detail you may have on the Fund's operations.

The bill before the Committee would amend the Bretton Woods Agreements Act of 1945 to authorize an increase of $1,035 million in the quota of the United States in the International Monetary Fund. It would also authorize an appropriation for that purpose. This would permit the United States to carry out its part of a broad international program for expanding the resources of the Fund.

As President Johnson pointed out in submitting this legislation to the Congress, the International Monetary Fund has played a key role in the flourishing economic growth experienced by the free world in the last two decades and an expansion of the Fund's resources is now needed if it is to continue to contribute effectively to free world growth in the future.

D-1546

The Legislation

The Bretton Woods Agreements Act provides in Section 5 that the authorization of Congress shall be received before any person or agency shall, on behalf of the United States, request or consent to any change in the quota of the United States in the International Monetary Fund. The proposed legislation provides Congressional authorization for the United States to consent to a 25% increase in its quota. Acting on instructions from the Board of Governors of the International Monetary Fund, the Executive Directors have submitted to the Governors two Resolutions: the first proposes that all member countries accept a 25% increase in quota; the second proposes that sixteen of the members accept, in addition to the 25% increase, special increases which in the aggregate amount to $870 million.

The combined total of general and special increases recommended amounts to nearly $5 billion, and acceptance of the recommendation by all members would increase the total of Fund quotas from a little more than $16 billion to approximately $21 billion. The United States share of this total increase would be slightly over one fifth, and our quota would become $5,160 million as compared to its present $4,125 million.

The proposed quota increases by country are shown in detail in the Special Report of the National Advisory Council on

International Monetary and Financial Problems which is before you. Attached to that report as an appendix is the report of the Executive Directors of the Fund to the Board of Governors entitled "Increases in Quotas of Fund Members: 4th Quinquennial Review."

In order for the increases recommended by the Executive Directors to become effective two steps must be taken. First, they must be approved by the affirmative vote of Governors representing 80% of the Fund's voting power. Such a ballot is currently underway and is to be completed by March 31st. In accordance with the directive of the National Advisory Council, I have already cast the vote of the United States in favor of the two resolutions.

The second requirement that has to be met before the quota increases can become effective is that countries whose quotas on February 26, 1965 aggregated two thirds of the total Fund quotas must consent to the increase in their quotas and make payment to the Fund. Payments received by the Fund will be placed in a segregated account until the two thirds total is reached. Should it not be reached, the funds will be returned to the countries to which they belong. It is the authority to give this consent, and authorization for the appropriation to make this payment, that is sought in the legislation now before you. Consents to the increase are to be

received on or before September 25, 1965, or such later date as the Executive Directors may determine.

Authorization of Appropriation

The legislation before you authorizes to be appropriated $1,035 million, to remain available until expended. This authorization, and the subsequent appropriation, should be considered in two parts.

First, the Articles of Agreement of the Fund provide that 25% of any quota increase must normally be paid to the Fund in gold. 25% of the proposed U.S. increase amounts to $258.75 million and this amount must be paid at the time the United States accepts its quota increase. In exchange for this payment, the United States will receive a "gold tranche" drawing right on the International Monetary Fund. This is a virtually automatic drawing right and represents a reserve asset which the United States can call upon at any time.

The remaining portion of the authorization -- $776.25 million -- will permit the United States to issue to the International Monetary Fund a letter of credit in that amount on which the Fund may draw at such time as it may require additional dollar funds to meet drawings of other members. Although the entire appropriation requested will be needed to permit the

United States to fulfill its obligations, expenditures against this $776 million portion are not likely to occur in the foreseeable future.

The Fund now holds U.S. dollars in the amount of about $3,350 million. These are held almost entirely in the form of non-interest-bearing notes. As long as the United States continues to have a balance-of-payments deficit, Fund policy will limit drawings in dollars. And, in any event, the Fund's existing holdings of dollars will be used to meet the needs of any future drawings before calls will be made on the new letter of credit.

As the Committee is aware, the United States Government has shifted increasingly to the provision of funds through a letter-of-credit technique. This amounts to an unconditional obligation to provide funds as these are actually needed. This technique is now in general use both in our domestic programs and in our dealings with international institutions. It was designed to obviate expenditures prior to the time when funds are actually needed. In the past, the technique in dealing with international institutions was somewhat different. Payments were made to the institution and excess funds were returned to the United States Government in exchange for non-interest-bearing notes.

Nature of the International Monetary Fund

Before outlining the reasons for an increase in Fund quotas I should like to say a word about the nature of the Fund itself.

The International Monetary Fund and the International Bank for Reconstruction and Development were established following negotiations at the Bretton Woods Conference of 1944. The IBRD, or the World Bank, was designed to provide long-term financial assistance -- first for the reconstruction of war torn areas and later for the economic development of its member countries. It now gives particular attention to the needs of the less developed countries of the world.

The International Monetary Fund, on the other hand, was designed

> "To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
>
> "To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

To accomplish these purposes, the Fund has worked continuously for the elimination of exchange restrictions, the avoidance of competitive exchange depreciation, and the promotion of exchange stability. When member countries draw needed currencies from the Fund they do so to provide financing for their position while corrective measures are being taken to eliminate a temporary balance-of-payments situation. Any drawing must be repaid within a 3-to 5-year period.

The point I wish to make is that the International Monetary Fund should not be confused with institutions whose primary purpose is the making of long-term loans. Even less should it be confused with bilateral or multilateral aid programs under which long-term assistance is provided, frequently on very generous credit terms.

When a country draws a needed currency from the Fund, moreover, it transfers to the Fund an equivalent amount of its own currency. Accordingly, the assets of the Fund are not reduced when it provides temporary assistance to a member country. The composition of those assets is, however, changed, depending upon the gold and currency composition of the drawings and repayments which have taken place. I shall discuss the significance of the asset composition at a later point.

In 18 years of Fund operations through the end of 1964, member countries have drawn over $9 billion in dollars or other currencies. These drawings have been or are being repaid in accordance with agreed schedules. In the most recent ten-year period, net drawings outstanding at the end of the year have varied from a low of $234 million in 1955 to a high of $2,621 million at the end of 1964. The latter figure is unusually high because it includes nearly $1 billion of net drawings by the United Kingdom, reflecting a large drawing by that country in December 1964.

Prior to 1960, drawings from the Fund were predominantly taken in the form of dollars and the United States established a strong creditor position in relation to the Fund. By the end of 1957, gross drawings of dollars had amounted to nearly $2.7 billion. The Fund had purchased additional dollars from the United States by selling us nearly $600 million worth of gold. At that time, IMF holdings of dollars represented no more than 28% of the United States quota.

Following the return to de facto convertibility of the currencies of Western Europe at the end of 1958, the Fund began increasingly to provide currencies other than the dollar to countries seeking temporary financing. This practice was intensified as the balance-of-payments position of the United

States moved into substantial deficit. Repayments in dollars, however, continued to be large, with the result that in the period from the end of 1957 to the end of 1962 the Fund's holdings of dollars increased by more than $1 billion. In this way the normal operations of the Fund absorbed more than $1 billion from the reserves of other countries, thus easing our international financing problems and obviating possible drains upon the United States gold stock. By the end of 1963 Fund holdings of dollars had been restored to 75% of the U. S. quota. At that point the U. S. was neither a creditor nor a debtor vis-a-vis the institution.

Over the past year the United States has itself, for the first time, made modest drawings from the Fund. We have drawn primarily in German marks and French francs and we have sold the currencies we have drawn, against dollars, to countries wishing to make repayments to the Fund. These countries could not use their dollar holdings directly for this purpose since the Fund does not accept in repayment currencies which it holds in excess of 75% of quota. For the Fund to accept such currencies -- in this instance dollars -- would mean that the United States would be placed in a debtor position vis-a-vis the Fund without any initiative on our part; this would be inconsistent with the Fund's method of operation.

Attached to this statement is a chart which shows graphically the developments of the U.S. position in the Fund which I have just described.

Our current net drawings of approximately $330 million (including a drawing of $75 million announced just yesterday) have, of course, also had the effect of reducing United States dollar liabilities to foreign countries; these countries have paid dollars to us in order to acquire the particular currencies used to repay the Fund.

The other side of the same picture I have been presenting is that drawings from the Fund in recent years have been made primarily in currencies other than the dollar. These have been, for the most part, the currencies of Western European countries now in balance-of-payments surplus. As a result, the Fund's holdings of the currencies of the "Group of Ten" countries, other than the United States and the United Kingdom, have been reduced by more than $1 billion and at the end of 1964 amounted to the equivalent of about $1.8 billion.

If all member countries accept the quota increases suggested for them, Fund holdings of these same currencies will be increased by more than $1 billion and the liquidity of the Fund will be substantially improved. In addition, Fund holdings of gold will also be increased by approximately $1 billion.

As will be apparent from this brief summary, the operations of the Fund are designed so that countries in balance-of-payments surplus are called upon to provide a certain amount of interim financing for countries in balance-of-payments deficit. The position of the surplus countries is, however, protected in two ways. First, the extent to which any one country may be called upon to provide its currency to the Fund is limited by the size of that country's quota. Secondly, the Fund examines the requests of countries seeking to draw currencies from it with increasing rigor, depending on the extent to which the drawing country is making use of the Fund. The gold tranche (normally 25% of quota) is granted virtually automatically upon the drawing country's assertion that it needs foreign currencies in connection with its balance-of-payments financing.

When a country seeks to draw its first credit tranche (a second 25% of its quota), the Fund will appraise its needs with a liberal attitude provided that the member itself is making reasonable efforts to solve its problems. Requests for additional drawings require substantial justification. In the words of a recent annual report of the Fund: "They are likely to be favorably received when the drawings or standby arrangements are intended to support a sound program aimed at establishing or maintaining the enduring stability of the member's currency at a realistic rate of exchange."

Current Discussions Regarding the International Monetary System

Members of this Committee will be aware that international discussion is presently taking place in various inter-governmental forums regarding the effectiveness of the present international monetary system to support and sustain a rapidly growing volume of world trade and further expansion in the economic growth of both less developed and developed countries. I think this whole question was placed in proper perspective last September in Tokyo. Mr. Pierre Paul Schweitzer, Managing Director of the International Monetary Fund, presented a brief comparison of international monetary developments in the twenty years after the first World War and the twenty years after the second World War. The latter period is, of course, the twenty years since the Articles of Agreement of the International Monetary Fund were negotiated at the Bretton Woods Conference in New Hampshire.

The turbulent history of the period after World War I included the monetary crisis of the 1930's, the shattering world-wide depression which followed, the proliferation of "beggar thy neighbor" trade policies, and the growth of forms of economic warfare in which exchange controls and other financial tools played an important part.

In contrast, the twenty years since World War II, while they have not been completely free of turbulent episodes, have witnessed spectacular economic progress. In the words of Mr. Schweitzer:

> "The record of the two decades since the end of the [second World] War, although not perfect, cannot be considered unsatisfactory. Much has been achieved; a tremendous expansion of world trade; the convertibility of all major currencies; greatly reduced reliance on restrictions and on bilateralism; considerable, if still insufficient, progress in the developing countries; high levels of employment; and avoidance of the extremes of inflation and deflation in most areas of the world."

In no small part this vast improvement in the international monetary system and in the economic cooperation among the countries of the world has been the result of the Fund's policies and activities. In the agreement establishing the Fund, the members undertook to eliminate from their practices the more objectionable features of the monetary and exchange systems in the earlier period. By their participation in the Fund, countries have become increasingly

aware of the problems of others, and have realized that they are part of a world community with common economic interests.

The Fund has used its powers of persuasion, the provision of sound technical advice, and the availability of medium-term assistance to secure the adoption of appropriate economic policies in many countries. It has to a great extent succeeded in eliminating bilateralism in trade and exchange agreements. It has brought about a sharp reduction in multiple exchange rate practices which were particularly disadvantageous to American exporters who found themselves discriminated against. It has used its resources effectively to give temporary relief to countries whose exchanges were under pressure. This has provided a breathing spell during which the countries concerned could develop measures to restore equilibrium in ways which would have minimum adverse repercussions on other countries. The relative stability of exchange rates which the Fund has fostered has encouraged the expansion of international trade and the international movement of productive capital.

It would not be accurate, however, to attribute to the International Monetary Fund all credit for the successful international monetary record of the last two decades. One

outstanding influence extraneous to the Bretton Woods machinery (though consistent with the spirit of cooperation which underlies that machinery) was the enlightened creditor behavior of the United States, demonstrated in the Marshall Plan when this country provided billions of dollars in grants and loans to assist the recovery of the war devastated nations of Western Europe. Without this program the international monetary history following the second World War could not have been as successful as it was.

The lesson learned during the first postwar decade -- that the correction of international imbalance requires the cooperation of countries in surplus as well as those in deficit -- is one that continues to be highly relevant. In this connection, I am happy to note that the Federal Republic of Germany has taken a number of specific actions to discourage disequilibrating capital inflows. These measures appear to be essentially eliminating what was a disturbing surplus and thus contributing to a better international payments equilibrium.

This is the background against which the International Monetary Fund, representing nearly all the free world countries, large and small, and the Group of Ten major trading countries

have been examining the adequacy of world reserves, the need for international credit facilities, and possible future needs for some new forms of international monetary assets.

The increase in Fund quotas now under consideration falls in the second category -- expansion of international credit facilities. The purpose is not to add to reserves -- these are considered to be adequate at the present time -- but rather to provide the Fund with the resources needed to meet temporary imbalances that are likely to grow larger as the total value of world trade and world financial transactions expands.

As I have already mentioned, the use of a part of these facilities is virtually automatic. This applies to roughly 25 percent of the quota of any country. Much the larger part of the credit available to the Fund, however, is conditional and subject to international review and supervision.

The Quinquennial Review

The framers of the International Monetary Fund foresaw the probable need for periodic increases in Fund quotas to keep pace with the expansion in world economic activity. While the Articles of Agreement permit review of the adequacy of quotas at any time, they provide that quotas must be

reviewed each five years. The present proposals for enlarging quotas result from the fourth quinquennial review. While individual quotas have been changed from time to time on the request of particular members and approval by the Governors of the Fund, the only previous general increase occurred in the period 1958-59. At that time, there was a general increase in quotas of 50 percent for all members and special quota increases were requested and accepted by Germany, Canada, Japan and certain other countries.

Since 1958, world trade has increased by more than 50 percent. Aggregate world imports, for example, were about $101 billion in 1958 and about $156 billion in 1964. No comparable single figure is available to measure world capital movements, but these have undoubtedly increased by a substantially greater percentage since the restoration of de facto convertibility in Western Europe at the end of 1958. Both short-term and long-term capital movements have increased greatly. Some of these are equilibrating in nature; others tend to widen rather than narrow balance-of-payments disequilibria.

The same period has seen greater use of the Fund's resources by the larger member countries. Canada, Italy, Japan, the United Kingdom and the United States have either

drawn on Fund resources or entered into stand-by arrangements with the Fund, or both. In the past five years annual drawings from the Fund have averaged more than $1 billion. During the period 1955-59 the average was $440 million.

These facts clearly indicate the need for an increase in the Fund's resources at this time. This need was unanimously recognized by the Governors of the Fund at their meeting in Tokyo last September. Furthermore, in the absence of unforseen developments, this increase will be expected to provide for the Fund's needs until the next quinquennial review in 1969-70. In this light the current proposal can only be considered an obviously essential but barely minimal step in strengthening the international payments system.

Even when the Fund is not actually providing resources to member countries to meet their temporary balance-of-payments needs, it is performing an important role in the present-day monetary system. The very existence of the Fund, and the drawing rights which members possess, provides a background against which a number of the larger members have established among themselves a substantial network of reciprocal bilateral credits. The swap arrangements operated by the Federal Reserve System and the Treasury form part of this network. These arrangements provide short-term facilities which permit

the participants to avoid or counter the damaging effects which might otherwise follow from volatile capital flows of a speculative or seasonal nature. These short-term bilateral facilities can be called on promptly and quietly by members participating in them. Should balance-of-payments difficulties persist beyond the period for which the bilateral facilities are provided the availability of medium-term credit from the International Monetary Fund can facilitate liquidation of the short-term obligations. Evidence of the effectiveness of the short-term bilateral network and of the manner in which the International Monetary Fund may assist in converting short-term obligations into medium-term obligations was given in the British drawing of $1 billion from the Fund last December.

Arrangements for Minimizing Impact on U.S. Gold Reserves

I have given particular attention to the possible effect on the United States of gold payments to the Fund in connection with the proposed quota increases. It was clear that, in the normal course of events, many countries would wish to purchase gold from the United States in order to pay the gold portion of their quota increase to the Fund. Both the Group of Ten and the IMF recognized that, if non-reserve countries utilized their holdings of reserve currencies to acquire

gold from reserve currency countries in order to make payments to the IMF, the result would be both to reduce the gold holdings of the reserve centers and to actually diminish aggregate world reserves.

Accordingly, special measures were developed to minimize this indirect drain on the gold stocks of the reserve countries with its accompanying decrease in international reserves. Three measures, explained in full detail in the National Advisory Council Report and in the Report of the Executive Directors of the Fund, are contemplated.

First, a number of the major countries have indicated that they intend to pay their gold subscriptions from their own gold holdings and will not buy gold for this purpose.

Second, the Fund is prepared to make arrangements with certain non-reserve countries in strong balance-of-payments positions that gold sold by them to third countries for the latter's gold payments to the Fund will be resold to the selling country by the Fund in exchange for the selling country's own currency. Arrangements of this nature are expected to cover some $150 million of gold subscriptions.

Third, to the extent that gold may still be purchased from the United States and the United Kingdom by other countries, the Fund is prepared to open gold deposits with those two countries

up to an aggregate amount of $350 million. These funds will be withdrawable by the International Monetary Fund on demand. It is understood, however, that "on the occasion of any use of gold, the Fund would normally use, in appropriate proportions, earmarked gold and gold on general deposit in accordance with the good management of its assets."

These arrangements will provide fully adequate protection for the United States gold stock while at the same time providing the Fund with needed liquidity. It should be noted that the French Executive Director, on instructions from his government, voted against the proposed 25% general increase in quotas, because of disagreement with the need for the second and third of these provisions.

Conclusion

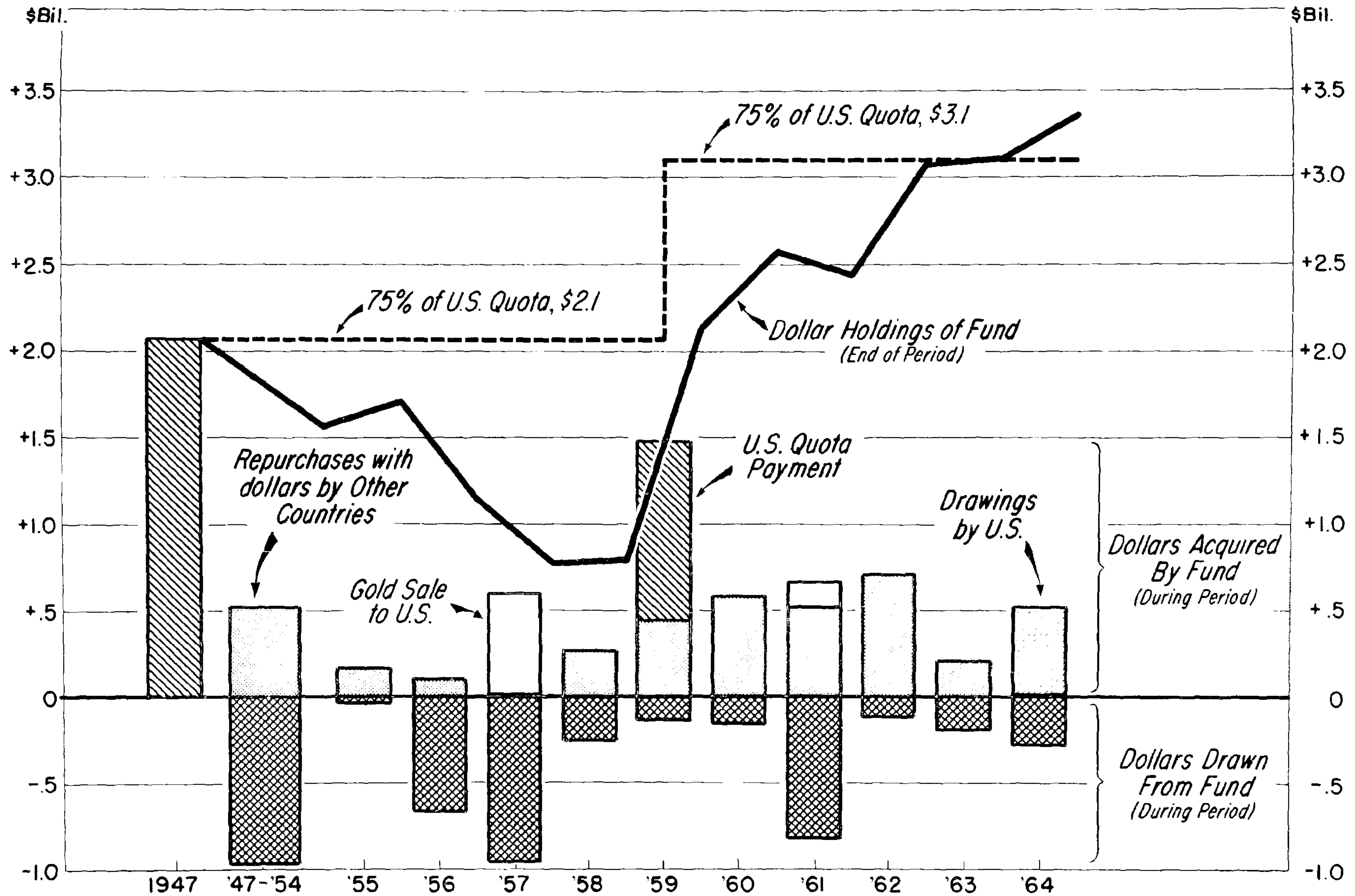
One of the basic principles established at Bretton Woods was that the success of any international monetary system would require intelligent, purposeful, organized cooperation. That principle is embodied in the International Monetary Fund and is one to which the United States strongly adheres. An increase in the resources of the Fund is necessary at the present time to maintain the strength and central position of the Fund in the evolution of the international monetary system.

In the Special Report of the National Advisory Council, I

am joined by my colleagues on the Council in recommending strongly that the Congress support the proposed increase of 25% in the United States quota in the International Monetary Fund.

In presenting this legislation for your consideration President Johnson recalled that the United States has given firm support to the International Monetary Fund since its creation in the Bretton Woods Agreements Act of 1945, and he urged that this support continue.

U.S. POSITION IN THE INTERNATIONAL MONETARY FUND



Note: *Fund holdings of dollars equal to 75% of the U.S. quota represents a balanced position - the U.S. neither a creditor nor a debtor vis-a-vis the Fund.*
Fund holdings below 75% = U.S. creditor position.
Fund holdings above 75% = U.S. debtor position.

Office of the Secretary of the Treasury

FO-384

~~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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on April 1, ~~(16)~~ 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 1, 1965 ~~(17)~~. Cash

~~[illegible]~~

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.

~~Exhibit 2A~~

~~BETA MODIFIED~~

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 24, 1965

(1)

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two serie[s] of Treasury bills to the aggregate amount of $ 2,200,000,000 (2), or thereabouts, for cash and in exchange for Treasury bills maturing April 1, 1965 (3), in the amoun[t] of $ 2,100,187,000 (4), as follows:

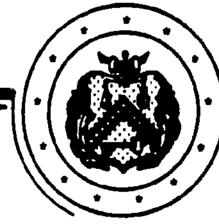
91 (5) -day bills (to maturity date) to be issued April 1, 1965 (6), in the amount of $ 1,200,000,000 (7), or thereabouts, representing an additional amount of bills dated December 31, 1964 (8), and to mature July 1, 1965 (9), originally issued in the amount of $ 1,001,977,000 th[e]

182-day bills (to maturity date) to be issued April 1, 1965, in the amount of $1,000,000,000, or thereabouts, representing an additional amount of bills dated September 30, 1964, and to mature September 30, 1965, originally issued in the amo[unt] of $1,000,539,000, the additional and original bills to be freely interchangeable (XXX)

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 29, 1965 (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

TREASURY DEPARTMENT



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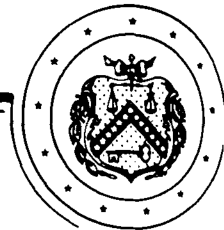
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 24, 1965

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
STEEL WELDED WIRE MESH

On March 3, 1965, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that steel welded wire mesh for concrete reinforcement imported from Italy is being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

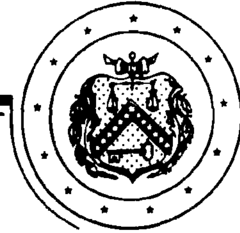
In order to establish the validity of the information, the Bureau of Customs is instituting an inquiry pursuant to the provisions of section 14.6(d)(1)(ii), (2) and (3) of the Customs Regulations.

The information was submitted by Amco Wire & Mesh Company, Houston, Texas.

An "Antidumping Proceeding Notice" to this effect is being published in the Federal Register pursuant to section 14.6(d)(1)(i) of the Customs Regulations.

The dollar value of imports received during the period January through December 1964 was approximately $114,000.

TREASURY DEPARTMENT



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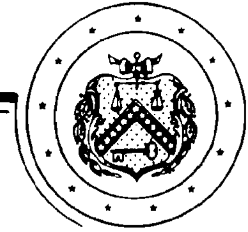

WASHINGTON, D.C.

March 29, 1965

RELEASE ON RECEIPT

TREASURY SECRETARY DILLON NAMES ANKER M. ERIKSMOEN AS NEW NORTH DAKOTA STATE CHAIRMAN FOR U. S. SAVINGS BONDS

Secretary of the Treasury Douglas Dillon today appointed Anker M. Eriksmoen, Fargo banker and civic leader, as volunteer State Chairman for the U. S. Savings Bond program in North Dakota. He is President, Dakota National Bank of Fargo, and succeeds Adrian O. McLellan, Merchants National Bank & Trust Company of Fargo.

In announcing the appointment, Secretary Dillon said, "We feel that the Savings Bonds program is one of the most important activities in which we are engaged. It not only is an essential feature of our debt management program but also serves to encourage thrift. The addition of a leader of Mr. Eriksmoen's stature will help us tremendously."

Associated with the Dakota National Bank since 1948, Eriksmoen is past President of the North Dakota Bankers Association and, currently, is a member of its Executive Committee. Additionally, he is a member of the Finance Committee, U. S. Chamber of Commerce; former Board Member of the Fargo Board of Budget Review.

He is a Navy veteran of World War Two and was formerly both Examiner and Field Representative for the Reconstruction Finance Corp. A member of the First Lutheran Church, he was President of that Congregation for two years and has served on its Board of Trustees for six years.

Married to the former Agnes Olson of Crosby, N. D., he is the father of four children -- three boys, one girl -- and is a long-time Savings Bond volunteer. Prior to his appointment as State Chairman, he served as Region 3 Savings Bond Chairman of seven Southeastern North Dakota counties from August, 1953, to date.

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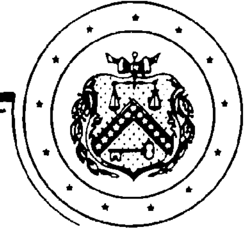
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 29, 1965

RELEASE ON RECEIPT

TREASURY SECRETARY DILLON NAMES JOHN L. WILSON AS
NEW MISSOURI STATE CHAIRMAN FOR U. S. SAVINGS BONDS

Secretary of the Treasury Douglas Dillon today appointed John L. Wilson, St. Louis business and civic leader, as volunteer State Chairman for the U. S. Savings Bond program in Missouri. He is Chairman of the Board, Universal Match Corp., and succeeds Arthur K. Atkinson who, prior to his death last September, was a financial consultant and former Chairman of the Board of the Wabash Railroad.

In announcing the appointment, Secretary Dillon said, "We feel that the Savings Bonds program is one of the most important activities in which we are engaged. It not only is an essential feature of our debt management program but also serves to encourage thrift. The addition of a leader of Mr. Wilson's stature will help us tremendously."

Associated with the Universal Match Corp. since 1959, Wilson previously served as Director and President of the St. Louis Public Service Co. and as President of the Transit Casualty Co. of St. Louis, as well as Director and Executive Vice-President of Anheuser-Busch, Inc. His current corporate directorships include Anheuser-Busch, Inc.; First National Bank; General American Life Insurance Co.; Liberty Loan Corp.; Missouri Portland Cement Co.; St. Louis National Baseball Club, Inc.; and Transit Casualty Co., all in St. Louis.

Additionally, he is a Director of the following civic organizations -- Chamber of Commerce of Metropolitan St. Louis; Executive Committee, United Fund of Greater St. Louis, Inc.; Municipal Theatre Association; St. Louis Crime Commission; Finance Committee, David Rankin, Jr., School of Mechanical Trades; St. Louis Symphony Society; St. Louis Bicentennial Celebration Committee; Civic Center Redevelopment Corp. He is also a member of the Advisory Board, St. Louis Council, Boy Scouts of America; and a Trustee of Jefferson National Expansion Memorial Association.

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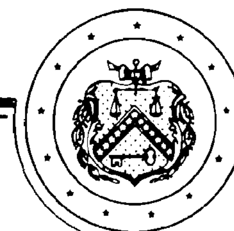
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A. M. NEWSPAPERS,
Friday, March 26, 1965.

March 25, 1965

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced last evening that the tenders for $1,000,000,000, or thereabouts, of 365-day Treasury bills to be dated March 31, 1965, and to mature March 31, 1966, which were offered on March 18, were opened at the Federal Reserve Banks on March 25.

The details of this issue are as follows:

Total applied for - $2,240,976,000
Total accepted - $1,000,018,000 (includes $53,400,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting 1 tender of $50,000)

High	- 95.973	Equivalent rate of discount approx. 3.972% per annum
Low	- 95.950	" " " " " 3.995% " "
Average	- 95.957	" " " " " 3.987% " " 1/

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 22,601,000	$ 12,601,000
New York	1,615,051,000	669,206,000
Philadelphia	18,029,000	12,999,000
Cleveland	77,336,000	47,936,000
Richmond	12,358,000	5,288,000
Atlanta	19,738,000	13,738,000
Chicago	329,116,000	143,223,000
St. Louis	11,105,000	9,405,000
Minneapolis	11,142,000	7,787,000
Kansas City	6,605,000	6,605,000
Dallas	32,733,000	19,893,000
San Francisco	85,162,000	51,337,000
TOTAL	$2,240,976,000	$1,000,018,000

1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide a yield of 4.17%. 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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ultimately increase stock values and so contribute to capital gains -- which once more brings us back full circle to the treatment of capital gains at death.

These, then, are some of the many problems and prospects that lie ahead in fiscal policy and tax policy. What is clear is that our problems are continually changing. If we are to keep up with the times we must continually attack them with the newest and best tools of analysis in a climate as free as possible of old prejudices. That is the unchanging challenge that is always before us.

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We often hear the claim that dividends are subject to double taxation. But if one devotes any time to this matter, it becomes quite clear that at some income levels and with some dividend distribution policies, the total tax burden on corporate income can be less than the total tax burden on income earned directly, say, through a proprietorship or a partnership.

One serious problem is the question of just who pays the corporate tax. There has in the past been a great deal of theoretical speculation about this very complex problem. Yet even with the careful statistical analysis of recent years we are still far from agreement.

Should we eventually decide that the tax is largely borne by shareholders, the issue of the so-called double taxation of dividends must then be considered hand-in-hand with the issue of appropriate treatment of retained earnings. For retained earnings

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Excise Tax Reduction

These considerations bear directly upon our current intention to reduce excise taxes, which are particularly regressive. In the longer run, they require that we give serious though to the structu of our tax system at the lower income levels. We made a modest beginning in this direction in the Revenue Act of 1964 with the minimum standard deduction, a new method of lessening the tax burden of those who can least afford to carry it. But in the interests of tax fairness, as well as in the need to lighten the burden of true poverty, further action is called for.

Relationship Between The Corporate And The Individual Income Tax

The final issue of tax equity I would like to stress concerns the interrelationship between the corporate tax and the individual income tax.

Clearly, we do not give adequate tax relief to those with very low incomes. For instance, the biggest jump in progressivity is at the start of the very first bracket, where we jump from a zero rate all the way to 14 percent.

Although it may be surprising to some, the fact is that, over time, the income tax bite has increased more at low levels than it has at high levels. In 1955 the poorest one-fifth of American families had an average income tax rate of 2.9 percent. By 1961 this had risen to 3.6 percent. On the other hand, the 5 percent with the highest incomes had an effective tax rate of 18.9 percent in both years, ~~even though, in 1955, that 5 percent [illegible]~~ families with incomes of over $13,000, and ~~in 1961 it [illegible] famili with incomes~~ of over $16,400. Clearly an income tax with fixed rates and exemptions tends to become less and less progressive with the passage of time.

a review for many years and their modernization deserves a high priority. For one thing a thorough review of estate tax exemptions and rate schedules would seem to be clearly in order.

Treatment Of Lower Income Taxpayers

On the problem of "vertical equity" -- the treatment of taxpayers at different income levels -- there has been much concern over how the tax burden is distributed between the very rich on th one hand and everyone else on the other. As a result, we have giv little attention to the progressivity of our system in the middle and lower-income groups -- which include most of our citizens.

The fact is that our tax system involves very little progression between the lowest brackets and those of taxpayers with up to about $15,000 of income. Furthermore, whatever progressivit the individual income tax has at these levels is offset to a considerable extent by regressive taxes elswhere in our tax system

economy and the nation. In addition, such treatment of capital gains also erodes the tax base and increases the tax burden on all who cannot benefit from this provision.

Provision should surely be made to end this special preference. This can be done in either of two ways, by taxation of capital gains when transfer occurs by reason of gift or death, or by a provision for carry-over of original basis. Present law already provides just such a carry-over of basis in the case of gifts. Extension of this same principal to transfers as a result of death would remove the present inequity.

In the light of the Administration's unsuccessful efforts to solve this problem in 1963, it seems likely that consideration of more equitable treatment of capital gains at death should be coupled, not only with an overall revision of the treatment of capital gains, but also with a thorough review of our taxes on estates and gifts. These taxes have not been subjected to such

on what he has left. Yet a second man whose investment has been in low dividend, high growth stocks may accumulate the same amount of wealth through increasing stock values. If he keeps these securities for his entire lifetime, he will receive the same estate tax treatment as the first man, but will never have paid any income tax on the increase in his wealth.

I see no justification for such widely disparate tax treatment of two individuals who through choice or circumstance happen to follow a different financial strategy for making money. Such treatment distorts the natural pattern of investment by placing a high premium on tax advantage. Why sell an asset whose value has increased and thereby incur a capital gains tax, if that tax can be avoided by holding on to the asset until death? By thus interfering with the free flow of capital in the market we unintentinally sap the vitality of our free enterprise system and harm both the

While we agree that we should have a tax system that is progressive in its impact, no one has been able to provide any well-documented argument as to just how progressive it ought to be. This is not surprising, but it has its unfortunate aspects. For a great deal of our concern about this problem of "vertical equity" has unintentionally drawn attention away from the equally serious problem of "horizontal equity" -- the unfair tax treatment of different individuals at basically similar income levels.

Capital Gains At Death And The Estate Tax

Perhaps the most important problem in this area of "horizontal equity" lies in the treatment of capital gains at death. Under our present law, a man who accumulates wealth during his life-time from earned income and dividends will pay substantial income taxes during his lifetime on this income -- and estate taxes will also be levied

But here again there is an alternative approach, which is simply the careful analysis of costs and benefits in particular programs -- the kind of analysis pioneered in recent years by the Department of Defense. This is the kind of analysis that has gone into the veterans hospital program and that is being used right now in evaluating the supersonic transport program. It is in this direction -- rather than in arbitrary budget ceilings -- that we must seek for solutions in trying to allocate expenditures between the public and the private sectors of our economy.

Apart from the economic aspect of our fiscal policy, we must also consider its human aspects. That is why we have emphasized both the incentive and the equity aspects of our tax proposals. What we have said about incentives has fallen on fertile soil, but what we have said about equity has often fallen on harder soil.

These choices inevitably involve tough decisions like those we have recently made on Navy yards, and Veterans hospitals. They also involve programs of enormous promise, such as the Peace Corps improved education or the war on poverty. Too often in the past such decisions have simply been the accidental byproducts of a confrontation between an alliance of the advocates of various expenditure programs on the one side and the opponents of all expenditure programs on the other. I am not at all sure that this approach has been very effective in weeding out expenditure programs -- and I particularly doubt that it has succeeded in weeding out the least worthy ones.

economic growth -- such as an increase of $40 billion in Gross National Product -- means that total expenditures in our society will have grown by $40 billion. For that is just what GNP is -- the sum of all the final expenditures in our economy. Much of this growth can and should be in the things we buy, privately and individually, for ourselves. But as our economy and our wealth expand, so does our need for public services, and so does the capacity of State, local and Federal Government to meet these needs.

We must decide, each year, how many of our urgent public needs we should meet out of our growing productive capacity, which programs deserve priority, and which can be cut back.

when recession threatens. For, it allows us to deal with the problem of rapid and temporary fiscal adjustments without weakening Congressional ~~authority to~~ control taxes. It requires only the assurance of a prompt Congressional vote whenever a temporary tax cu proposal is made by the President. The Congress can adopt whatever procedures it believes necessary to assure prompt action. But promp action is absolutely essential since delay in the fact of oncoming recession could easily cost the Nation billions of dollars in production and hundreds of thousands or even millions of jobs.

NO MATTER, HOWEVER, HOW VERSATILE AND PO A WEAPON WE MAKE OF FISCA POLICY, WE WILL CONTINUE TO FACE CRITICA CHOICES IN ACTUALLY BRINGING IT TO BEAR UPON OU ECONOMIC NEEDS.

Expenditure Policy

We cannot escape the fact that developing a budget, or any fiscal policy, involves many critical choices. No simple arbitrary formula can tell us how to make those choices. A growing economy inevitably brings rising government expenditures -- and CONFRONTS US WITH difficult decisions on how those expenditures should be made. A normal year's

IT AS A WEAPON TO FORESTALL -- AND NOT MERELY REA TO -- RECESSION.

we are now well launched upon a program to bring our balance of payments deficits to a swift and sure end. But there is little likelihood that the success of that program will permit us to shift more of the burden of sustaining domestic economic advance to monetary policy. High interest rates abroad and other structural imbalances in the world's capital markets will force us to continue, for the foreseeable future, to place our chief reliance on fiscal policy to keep our economy healthy and strong.

Flexibility of Tax Rates

BUT FISCAL POLICY WILL NOT FULFILL -- AS IT MUST -

One way in which fiscal policy can be greatly strengthened is ITS POTENTIAL AS A FORCE FOR STRONG AND STABLE ECONOMIC GROWTH, UNTIL WE CAN EMPLOY in its ability to counter recessions. Thus, the President recommended in his Economic Message that the Congress take steps to ensure "that its procedures will permit rapid action on temporary income tax cuts if recession threatens." This is a reasonable alternative to the recommendation made by the Commission on Money and Credit that the President be given discretionary authority to reduce tax rates

over the past four years, we have achieved a substantial improvement in our employment situation at the same time that we have compiled an outstanding record of price stability -- a record which stands in striking contrast to the pattern of steadily rising prices in other leading industrial nations.

A proper concern for the level of employment and for the needs of the economy need not lead to continuing deficits. If we can keep our economy moving steadily ahead, then even after allowing the increases in budget expenditures of about $3 billion a year, it is still perfectly feasible to foresee a balanced budget in fiscal 1968, just three years from now.

In evaluating budget policy -- past, present and future -- we must always bear in mind that our stubborn balance of payments proble force us to rely less on monetary policy and more on fiscal policy for the thrust that is needed to keep our economy moving. As you kn

when we were giving the private sector of our economy the stimulus of tax reduction.

And in his Budget Message of this year, President Johnson recognized that, if we are to continue our steady progress toward the twin goals of full employment and balanced budgets, we must move carefully. Thus, while the projected deficit of $5.3 billion for fiscal 1966 was $1 billion less than that projected for fiscal 1965, the President found room to include a prudent amount of excise tax reduction to insure the continued expansion of our economy.

This approach means, as President Johnson has amply demonstrated, that -- while, on the one hand, we must provide for essential national needs, whether they be economic, social or defense -- we must also rigorously, even ruthlessly, seek out and eliminate waste and inefficiency wherever we find them.

We see the success of this approach -- and undeniable evidence of the responsibility of our fiscal policy -- in the fact that,

receipt just as if it were a tax collection. It would certainly be surprising if the achievement of balance between the so-called expenditures and the so-called revenues of this budget turned out to have a neutral effect upon the private economy.

A far more realistic approach to budget making is to consider first the essential needs that must be met by Federal expenditures. We can then estimate the impact of these expenditures on the economy in the light of foreseeable revenues. Then, after considering the economic outlook we can make whatever fiscal adjustments appear necessary and so put together a budget that both meets essential national needs and produces an economic impact appropriate to existing conditions.

In 1963, for example, when we first proposed the tax cut, and again in early 1964, when it was about to go into effect, we emphasized the need to hold down public expenditures at a time

should be balanced every year or at least over some very short period of years -- no matter what the circumstances. This view usually assumes that a balanced budget is entirely neutral in its economic impact, neither inflationary nor deflationary, and thus has no effect at all upon the private economy.

But when we examine the facts a little more carefully, we discover that some taxes are more deflationary than others and that some expenditures are less inflationary than others -- that our ECONOMIC performance is affected by the structure of taxes and expenditures as well as by their level.

When we scrutinize the administrative budget -- which is the budget that most people want to balance -- we find a whole host of disparate items. In that budget, a loan is treated as an expenditure in exactly the same manner as wages paid, and the repayment of a debt to the Federal Government is treated as a revenu

DRAFT - 3/25/65

REMARKS BY THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN BANKERS ASSOCIATION
SYMPOSIUM ON FEDERAL TAXATION
AT THE MAYFLOWER HOTEL, WASHINGTON, D.C.
FRIDAY, MARCH 26, 1965, 9:30 A.M., EST

[This is] my last public speech as Secretary of the Treasury, TO MAKE THIS, [I am particularly pleased [that it is] before a group which has contributed so much to the better understanding of economic issues over the past four years.

In the light of our experience during those years, [-- and what it has taught us --] I would like to consider a few of the problems and prospects that may lie ahead.

Budgetary Policy

I have no doubt that, despite our better understanding of economic realities, a great deal of discussion over the next few years will continue to center around the question of budget deficits and balanced budgets. There are still many who hold that the budge

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TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

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I have no doubt that, despite our better understanding of economic realities, a great deal of discussion over the next few years will continue to center around the question of budget deficits and balanced budgets. There are still many who hold that the budget should be balanced every year or at least over some very short period of years -- no matter what the circumstances. This view usually assumes that a balanced budget is entirely neutral in its economic impact, neither inflationary nor deflationary, and thus has no effect at all upon the private economy.

But when we examine the facts a little more carefully, we discover that some taxes are more deflationary than others and that some expenditures are less inflationary than others -- that our economic performance is affected by the structure of taxes and expenditures as well as by their level.

When we scrutinize the administrative budget -- which is the budget that most people want to balance -- we find a whole host of disparate items. In that budget, a loan is treated as an expenditure in exactly the same manner as wages paid, and the repayment of a debt to the Federal Government is treated as a revenue receipt just as if it were a tax collection. It would certainly be surprising if the achievement of balance between the so-called expenditures and the so-called revenues of such a budget turned out to have a neutral effect upon the private economy.

A far more realistic approach to budget making is to consider first the essential needs that must be met by Federal expenditures. We can then estimate the impact of these expenditures on the economy in the light of foreseeable revenues. Finally, after considering the economic outlook, we can make whatever adjustments appear necessary and so put together a budget that both meets essential national needs and produces an economic impact appropriate to existing conditions.

In 1963, for example, when we first proposed the tax cut, and again in early 1964, when it was about to go into effect, our budgets reflected the imperative need for restraint in public expenditures at a time when we were giving expenditures in the private sector of our economy so large a stimulus through tax reduction.

And in his Budget Message of this year, President Johnson recognized that, if we are to continue our steady progress toward the twin goals of full employment and balanced budgets, we must move carefully. Thus, while the projected deficit of $5.3 billion for fiscal 1966 was $1 billion less than that projected for fiscal 1965, the President found room to include a prudent amount of excise tax reduction designed not only to remove inequities but also to insure the continued expansion of our economy.

This approach means, as President Johson has amply demonstrated, that -- while, on the one hand, we must provide for essential national needs, whether they be economic, social or defense -- we must also rigorously, even ruthlessly, seek out and eliminate waste and inefficiency wherever we find them.

We see the success of this approach in the fact that, over the past four years, we have achieved a substantial improvement in our employment situation at the same time that we have compiled an outstanding record of price stability -- a record which stands in striking contrast to the pattern of steadily rising prices in other leading industrial nations.

A proper concern for the level of employment and for the requirements of the economy need not lead to continuing deficits. If we can keep our economy moving steadily ahead, it is perfectly feasible, even after allowing for increases in budget expenditures of about $3 billion a year to foresee a balanced budget in fiscal 1968, just three years from now.

In evaluating budget policy -- past, present and future -- we must always bear in mind that our stubborn balance of payments problems force us to rely less on monetary policy and more on fiscal policy in fostering economic growth. As you know, we are now well launched upon a program to bring our balance of payments deficits to a swift and sure end. But there is little likelihood that the success of that program will permit us to shift more of the burden of sustaining domestic economic advance to monetary policy. High interest rates abroad and other structural imbalances in the world's capital markets will force us to continue, for the foreseeable future, to place our chief reliance on fiscal policy to keep our economy healthy and strong.

Flexibility of Tax Rates

But fiscal policy will not fulfill -- as it must -- its potential as a force for strong and stable economic growth, until we can employ it as a weapon to forestall -- and not merely react to -- recession. Thus, the President recommended in his Economic Message that the Congress take steps to ensure "that its procedures will permit rapid action on temporary income tax cuts if recession threatens." This is a reasonable alternative to the recommendation made by the Commission on Money and Credit that the President be given discretionary authority to reduce tax rates when recession threatens. For, it allows us to deal with the problem of rapid and temporary fiscal adjustments while maintaining unchanged our traditional Congressional control over taxes. It requires only the assurance of a prompt Congressional vote whenever a temporary tax cut proposal is made by the President. The Congress can adopt whatever procedures it believes necessary to assure prompt action. But prompt action is absolutely essential since delay in the face of oncoming recession could easily cost the nation billions of dollars in production and hundreds of thousands, or even millions, of jobs.

Expenditure Policy

No matter, however, how versatile and potent a weapon we make of fiscal policy, we will continue to face critical choices in actually bringing it to bear upon our economic needs and problems. No simple arbitrary formula can tell us how to make those choices. A growing economy inevitably brings rising government expenditures -- and confronts us with difficult decisions on how those expenditures should be made. A normal year's economic growth -- such as an increase of $40 billion in Gross National Product -- means that total expenditures in our

society will have grown by $40 billion. For that is just what GNP is -- the sum of all the final expenditures in our economy. Much of this growth can and should be in the things we buy, privately and individually, for ourselves. But as our economy and our wealth expand, so does our need for public services, and so does the capacity of State, local and Federal Government to meet these needs. We must decide, each year, how many of our urgent public needs we should meet out of our growing productive capacity, which programs deserve priority, and which can be cut back.

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But here again there is an alternative approach, which is simply the careful analysis of costs and benefits in particular programs. This is the kind of analysis that has gone into the development of our Defense programs, into the veterans hospital program and that is now being used in evaluating the supersonic transport program. It is in this direction -- rather than in arbitrary budget ceilings -- that we must seek for solutions in trying to allocate expenditures between the public and the private sectors of our economy.

Apart from the economic aspect of our fiscal policy, we must also consider its human aspects. That is why we have emphasized both the incentive and the equity aspects of our tax propsoals. What we have said about incentives has fallen on fertile soil, but what we have said about equity has often fallen on harder soil.

While we all agree that we should have a tax system that is progressive in its impact, we do not all agree on just how progressive it ought to be. This is not surprising, but it has its unfortunate aspects. For a great deal of our concern about this problem of progression -- or "vertical equity" -- has unintentionally drawn attention away from the equally serious problem of "horizontal equity" -- the unfair tax treatment of different individuals at basically similar income levels.

Capital Gains At Death And The Estate Tax

Perhaps the most important problem in this area of "horizontal equity" lies in the treatment of capital gains at death. Under our present law, a man who accumulates wealth during his life-time from earned income and dividends will pay substantial income taxes during his lifetime on this income -- and estate taxes will also be levied on what he has left. Yet a second man whose investment has been in low dividend, high growth stocks may accumulate the same amount of wealth through increasing stock values. If he keeps these securities for his entire lifetime, he will receive the same estate tax treatment as the first man, but will never have paid any income tax on the increase in his wealth.

I see no justification for such widely disparate tax treatment of two individuals who through choice or circumstance happen to follow a different financial strategy for making money. Such treatment distorts the natural pattern of investment by placing a high premium on tax advantage. Why sell an asset whose value has increased and thereby incur a capital gains tax, if that tax can be avoided by holding on to the asset until death? By thus interfering with the free flow of capital in the market we unintentionally sap the vitality of our free enterprise system and harm both the economy and the nation. In addition, such treatment of capital gains erodes the tax base and increases the tax burden on all who cannot benefit from this provision.

In the light of the Administration's unsuccessful efforts to solve this problem in 1963, it seems likely that consideration of possible alternatives for providing more equitable treatment of capital gains at death should be coupled with a thorough review of our taxes on estates and gifts. These taxes have not been subjected to such a review for many years and their modernization deserves a high priority. For one thing, a thorough review of estate tax exemptions and rate schedules seems clearly in order.

Treatment of Lower Income Taxpayers

On the problem of "vertical equity" -- the treatment of taxpayers at different income levels -- there has been much concern over how the tax burden is distributed between the very rich on the one hand and everyone else on the other. As a result, we have given little attention to the progressivity of our system in the middle and lower-income groups -- which include most of our citizens.

The fact is that our tax system involves very little progression between the lowest brackets and those of taxpayers with up to about $15,000 of income. Furthermore, whatever progressivity the individual income tax has at these levels is offset to a considerable extent by regressive taxes elsewhere in our tax system.

Clearly, we do not give adequate tax relief to those with very low incomes. For instance, the biggest jump in progressivity is at the start of the very first bracket, where we jump from a zero rate all the way to 14 percent.

Although it may be surprising to some, the fact is that, over time, the income tax bite increases more at low levels than it does at high levels. In 1955 the poorest one-fifth of American families had an average income tax rate of 2.9 percent. By 1961 this had risen to 3.6 percent. On the other hand, the 5 percent with the highest incomes had an effective tax rate of 18.9 percent in both years even though, in 1955, that 5 percent included all families with incomes of over $13,000, and in 1961 it only included families with incomes of over $16,400. Clearly an income tax with fixed rates and exemptions tends to become less and less progressive with the passage of time.

These considerations bear directly upon our current intention to reduce excise taxes, which are particularly regressive. In the longer run, they require that we give serious thought to the structure of our tax system at the lower income levels. We made a beginning in this direction in the Revenue Act of 1964 with the minimum standard deduction, a new method of lessening the tax burden of those who can least afford to carry it. But both interests of tax fairness, as well as the need to lighten the burden of true poverty, call for further action.

Relationship Between The Corporate And The Individual Income Tax

The final issue of tax equity I would like to stress concerns the interrelationship between the corporate tax and the individual income tax. We often hear the claim that dividends are subject to double taxation. But if one devotes any time to this matter, it becomes quite clear that at some income levels and with some dividend distribution policies, the total tax burden on corporate income can be less than the total tax burden on income earned directly, say, through a proprietorship or a partnership.

One serious problem is the question of just who pays the corporate tax. There has been a great deal of theoretical speculation about this very complex problem. Yet even with the careful statistical analyses of recent years we are still far from agreement.

Should we eventually decide that the tax is largely borne by shareholders, the issue of the so-called double taxation of dividends must then be considered hand-in-hand with the issue of the appropriate treatment of retained earnings. For retained earnings ultimately increase stock values and so contribute to capital gains -- which brings us back full circle to issues such as the treatment of capital gains at death.

These, then, are some of the many problems and prospects that lie ahead in fiscal and tax policy. What is clear is that our problems are continually changing. If we are to keep up with the times we must continually attack them with the newest and best tools of analysis in a climate as free as possible of old prejudices. That is the unchanging challenge that is always before us.

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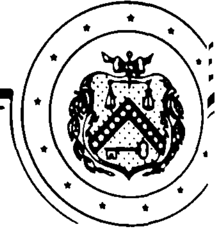
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 26, 1965

FOR IMMEDIATE RELEASE

TREASURY DECISION ON CHLORINATED PARAFFIN
UNDER THE ANTIDUMPING ACT

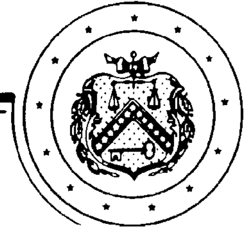
The Treasury Department has determined that chlorinated paraffin from England, manufactured by Imperial Chemical Industries Limited, England, is not being, nor likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act. This action is being taken pursuant to a "Notice of Intent to Discontinue Investigation and to Make Determination That No Sales Exist Below Fair Value," published in the Federal Register on February 6, 1965, because of price revisions with respect to chlorinated paraffin from England, manufactured by Imperial Chemical Industries Limited, England, and that such fact is considered to be evidence that there are not, and are not likely to be, sales below fair value.

No persuasive evidence or argument to the contrary was presented within 30 days of the publication of the above-mentioned notice in the Federal Register.

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

The dollar value of imports of the involved merchandise received during the period May through July 1964 was approximately $5,400.

TREASURY DEPARTMENT



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and apprehension that surround the audit of a tax return. I've seen some clippings recently describing courteous and efficient audits that do more than anything I know to build faith and confidence in our tax system. ~~Your present Commissioner's~~ Commissioner Cohen's desire to make the tax return a more easily understood document should be similarly beneficial.

You represent~~, I believe,~~ one of the most skilled and dedicated group of public servants in government today. The proof can be seen not ~~by~~ in anything I might say of you but ~~by~~ in the ~~[illegible]~~ record you are writing of day to day progress and achievement in tax administration.

As you have in the past, so I believe you will in the future, offer the imagination, perseverance and skill needed to make the most of opportunities to improve tax administration.

It has been a pleasure and a privilege to work with you. I wish you ~~each~~ all continued success and good luck in the years ahead.

oOo

the [illegible] of our tax system. And a very large measure of the credi for it goes to the average taxpayer, his honesty and the faith he has in the integrity of his government.

The vigorous routing out of bribers and cheaters that have fastened themselves to the fringes of our organization has had a positive effect on taxpayer confidence. We should be proud of the fact that this is a job we are doing ourselves. We have not needed the prodding or the revelations of outsiders to get us to do the job of keeping our own house in order.

Finally, I'd like to reaffirm my vigorous support for your recent efforts to increase public understanding and knowledge of our tax system and how it works. The public confidence we require to operat the system can only be maintained if the public has a good idea of what it is they are supposed to have confidence in.

I applaud the steps that have been taken to remove the fear

and apprehension that

confidence taxpayers have that we are honest and that we run the system fairly.

I'm sure you are familiar with the tax systems of other countries. Many of you have participated in one capacity or another in the Foreign Tax Assistance program, and have first hand experienc of what tax administration is like elsewhere.

The idea of a personal income tax that works is inconceivable in many parts of the world. And the further idea that this income tax should be based on what taxpayers say they earn would be even more outlandish. I'll never forget the disbelief one foreign tax expert showed when he heard we actually paid refunds. It was his idea that since taxes were so hard to collect the government should never voluntarily return any money that had been paid. If there was an excess, this could easily be carried over until some la ~~till next year~~.

But, refunds, self-assessment, and voluntary compliance are the ~~facts of~~

We should approach our contacts with taxpayers with the attitude that all the truth is not necessarily on our side. By our attitude, we should let the taxpayer know that he may well be able to help us reach a better interpretation or application of the tax statute. If we can achieve some of this spirit, I am sure that taxpayers will have far fewer complaints about the treatment they receive from the tax collector.

Another thought I'd like to leave with you is the extreme importance of integrity in tax administration. I believe the Inspection Service that stemmed from the 1952 reorganization has made a most significant contribution to our tax system. Whatever effort or commitment that Inspection has required of the Service has been returned many times over.

I seriously doubt that our tax system would be what it is today or possess the ability to meet national requirements, without the

confidence taxpay

field offices. Making sure that concern for courtesy at National, Regional and District offices filters down to employees at all levels is a challenge sufficient to test the managerial skill of us all.

It's been my experience that a measure of humility helps us deal courteously and fairly with others. Remember that we are not in ~~an~~ adversary relationship with taxpayers. ~~We don't have to win a case or prove a point.~~ Commissioner Cohen put this very well when he said our responsibility is to correctly interpret the statut not to collect the most dollars.

With this in mind, humility can be the leavening factor in ~~our~~ approach to administration that produces reasonableness and consideration. The fact is that we are <u>not</u> always right. Therefore it is not necessary to give the impression that we think we are infallible.

We should approach

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are, they cannot substitute for courtesy and consideration to taxpayers. None should be so bedazzled by ADP and its computers that the importance of fair treatment for an individual taxpayer, whether it be in person, by letter or over the phone, gets lost in the shuffle.

As managers, we have a dual responsibility in this area of taxpayer courtesy. Not only must we avoid any semblance of discourtesy in our own behaviour, but we must also make sure that all employees on our staffs and in our departments are constantly responsive to this need. For one discourteous employee can offset the good done by fifty of his fellows who treat the taxpayer fairly and courteously.

In a large organization like Internal Revenue, this is no easy task. It means we must be aware of what happens in each of some 90

field offices.

smooth and efficient manner in which the transition to this new system ~~was~~ made. ~~And~~ It ~~has been achieved~~ during a period of rising collections, ~~increased returns~~, and changes in tax laws and regulations. ~~You can be proud of the way you have phased ADP into your continuing work.~~ There ~~was~~ no shutdown for conversion or installation. In fact, a revolutionary shift in tax collection techniques has been accomplished quietly in an evolutionary manner.

~~Equally~~ important, ~~great~~ progress has been made toward achieving a better relationship between taxpayers and the Internal Revenue Service. I was pleased to hear Commissioner Cohen say that we must be able to disagree with a taxpayer without being disagreeable -- that really goes to the heart of the matter. With a tax system founded on voluntary compliance, considerate treatment of taxpayers is absolutely essential.

In fact, dramatic as the possibilities and the potentials of AD

are, they cannot

of man-years of enforcement activity have been gained as a result. And your employee suggestion program is the most productive in the Treasury Department.

You should be complimented on your entire personnel program. Your high standards in recruitment, the care taken in training, and your intelligent selection and development programs have all helped to create an exemplary organization.

The over-riding technical achievement in recent tax administration has been the installation of the Automatic Data Processing system. Although the system has not reached full operation for individual returns as it has for business returns, I was most impressed by Commissioner Cohen's recent report to me on the additional revenue ADP has already produced. This is positive evidence of ADP's worth and soundness.

I have been continually impressed by ~~An aspect of ADP that continually impresses me has been~~ the

smooth and efficie

$1.7 billion ~~a year~~ of new and additional revenue is now being raised each year as a res

of eliminating favoritism in our tax laws, three times as much as ha

been raised in this way during ~~in~~ the preceding twenty years. These reforms involving

changes in the law have been handled by you with a minimum of con-

troversy. You are to be congratulated.

On another important front, management, ~~From a management standpoint,~~ Internal Revenue has done an

exceptionally fine job of handling its appropriated ~~appropriation~~ funds. These

have been used well and wisely in the spirit of cost-consciousness

President Johnson has asked every government agency and employee to

observe. In this government wide effort, ~~I have been very sensitive to this concern for economy,~~ your record is second to none. You can

~~and consequently, I have been gratified by~~ the $40 million in

management savings that you have realized in recent years.

The realignment of field offices and manpower utilization

programs have been well conceived and highly effective. Thousands

of man-years

experts, it would have been impossible to develop the 1962 guideline
Programs to bring the needed information on these changes to busines
men and agents in the field were expertly conceived and carried out.

One major effect of the changes in tax law over the past four years has been the elimination of many inequities, either of special privilege or repressive rates, that have distorted the tax system. Obviously, much more needs to be done.

But consider these accomplishments:

Individual and corporate tax rates were substantially reduced to stimulate incentives and the growth of the economy;

Effective means were provided to control the abuses of expense account living and to eliminate the demoralizing effect of these abuses on taxpayer confidence.

Overseas tax havens were placed under new supervision and this tax avoidance device has been greatly restricted.

$1.7 billion a yea

REMARKS OF THE HONORABLE DOUGLAS DILLON
SECRETARY OF THE TREASURY
BEFORE A CONFERENCE OF
REGIONAL COMMISSIONERS AND DISTRICT DIRECTORS OF THE
INTERNAL REVENUE SERVICE
AT THE SMITHSONIAN AUDITORIUM, WASHINGTON, D.C.
MONDAY, MARCH 29, 1965, 9 A.M. EST

We have seen a great many advances in recent years both in tax policy and in tax administration. These advances are outstanding, and I would like to briefly review them, and to express my appreciation for the part you have played in achieving them.

The Depreciation Reform of 1962 -- which was further liberalized this year -- has played an important part in contributing to the unprecedented period of economic stability and growth we are now enjoying.

Depreciation reform made funds available for business modernization and expansion. It produced positive results in expanding employment and in the position of American industry in relation to competitors overseas.

Without the thorough field research on depreciation by your experts, it would

TREASURY DEPARTMENT
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AT THE SMITHSONIAN AUDITORIUM, WASHINGTON, D.C.
MONDAY, MARCH 29, 1965, 9 A.M., EST

We have seen a great many advances in recent years both in tax policy and in tax administration. These advances are outstanding, and I would like to briefly review them, and to express my appreciation for the part you have played in achieving them.

The Depreciation Reform of 1962 -- which was further liberalized this year -- has played an important part in contributing to the unprecedented period of economic stability and growth we are now enjoying.

Depreciation reform made funds available for business modernization and expansion. It produced positive results in expanding employment and in the position of American industry in relation to competitors overseas.

Without the thorough field research on depreciation by your experts, it would have been impossible to develope the 1962 guidelines. Programs to bring the needed information on these changes to businessmen and agents in the field were expertly conceived and carried out.

One major effect of the changes in tax law over the past four years has been the elimination of many inequities, either of special privilege or repressive rates, that have distorted the tax system. Obviously, much more needs to be done.

But consider these accomplishments:

Individual and corporate tax rates were substantially reduced to stimulate incentives and the growth of the economy;

Effective means were provided to control the abuses of expense account living and to eliminate the demoralizing effect of these abuses on taxpayer confidence.

Overseas tax havens were placed under new supervision and this tax avoidance device has been greatly restricted.

$1.7 billion of new and additional revenue is now being raised each year as a result of eliminating favoritism in our tax laws, three times as much as had been raised in this way during the preceding twenty years. These reforms involving changes in the law have been handled by you with a minimum of controversy. You are to be congratulated.

On another important front, management, Internal Revenue has done an exceptionally fine job of handling its appropriated funds. These have been used well and wisely in the spirit of cost-consciousness that President Johnson has asked every government agenc and employee to observe. In this government wide effort, your recorc is second to none. You can be truly proud of the $40 million in management savings that you have realized in recent years.

The realignment of field offices and manpower utilization programs have been well conceived and highly effective. Thousands of man-years of enforcement activity have been gained as a result. And your employee suggestion program is the most productive in the Treasury Department.

You should be complimented on your entire personnel program. Your high standards in recruitment, the care taken in training, and your intelligent selection and development programs have all helped to create an exemplary organization.

The over-riding technical achievement in recent tax administration has been the installation of the Automatic Data Processing system. Although the system has not reached full operation for individual returns as it has for business returns, I was most impressed by Commissioner Cohen's recent report to me on the additional revenues ADP has already produced. This is positi evidence of ADP's worth and soundness.

I have been continually impressed by the smooth and efficient manner in which the transition to this new system is being made. It is being carried out during a period of rising collections, increasir numbers of top returns, and changes in tax laws and regulations. Yet there has been no shutdown for conversion or installation. In fact, a truly revolutionary shift in tax collection techniques has been accomplished quietly in an evolutionary manner.

But even more important than all this, is that progress has been made toward achieving a better relationship between taxpayers and the Internal Revenue Service. I was pleased to hear Commissioner Cohen say that we must be able to disagree with a taxpayer without being disagreeable -- for that really goes to the heart of the matter. With a tax system founded on voluntary compliance, considerate treatment of taxpayers is absolutely essential.

In fact, dramatic as the possibilities and the potentials of ADP are, they cannot substitute for courtesy and consideration to taxpayers. None should be so bedazzled by ADP and its computers that the importance of fair treatment for an individual taxpayer, whether it be in person, by letter or over the phone, gets lost in the shuffle.

As managers, we have a dual responsibility in this area of taxpayer courtesy. Not only must we avoid any semblances of discourtesy in our own behaviour, but we must also make sure that all employees on our staffs and in our departments are constantly responsive to this need. For one discourteous employee can offset the good done by fifty of his fellows who treat the taxpayer fairly and courteously.

In a large organization like Internal Revenue, this is no easy task. It means we must be aware of what happens in each of some 900 field offices. Making sure that concern for courtesy at National, Regional and District offices filters down to employees at all levels is a challenge sufficient to test the managerial skill of us all.

It's been my experience that a measure of humility helps us to deal courteously and fairly with others. Always remember that we are not in a permanent adversary relationship with taxpayers. Commissioner Cohen put this very well when he said our responsibility is to correctly interpret the statute -- not to collect the most dollars.

With this in mind, humility can be the leavening factor in an approach to administration that produces reasonableness and consideration. The fact is that we are not always right and cannot always be right. Therefore, it is not necessary to give the impression that we think we are infallible.

We should approach our contacts with taxpayers with the attitude that all the truth is not necessarily on our side. By our attitude, we should let the taxpayer know that he may well be able to help us reach a better interpretation or application of the tax statute. If we can achieve some of this spirit, I am sure that taxpayers will have far fewer complaints about the treatment they receive from the tax collector.

Another thought I'd like to leave with you is the extreme importance of integrity in tax administration. I believe the Inspection Service that stemmed from the 1952 reorganization has made a most significant contribution to our tax system. Whatever effort or commitment that Inspection has required of the Service has been returned many times over.

I seriously doubt that our tax system would be what it is today, or possess the ability to meet national requirements, without the confidence taxpayers have that we are honest and that we run the system fairly.

I'm sure you are familiar with the tax systems of other countries. Many of you have participated in one capacity or another in the Foreign Tax Assistance program, and have first hand experience of what tax administration is like elsewhere.

The idea of a personal income tax that works is inconceivable in many parts of the world. And the further idea that this income tax should be based on what taxpayers say they earn would be even more outlandish. I'll never forget the disbelief one foreign tax expert showed when he heard we actually paid refunds. It was his idea that since taxes were so hard to collect the government should never voluntarily return any money that had been paid. If there was an excess, this could easily be carried over until some later date.

But, refunds, self-assessment, and voluntary compliance are the very heart of our tax system. And a very large measure of the credit for it goes to the average taxpayer, his honesty and the faith he has in the integrity of his government.

The vigorous routing out of bribers and cheaters that have fastened themselves to the fringes of our organization has had a positive effect on taxpayer confidence. We should be proud of the fact that this is a job we are doing ourselves. We have not needed the prodding or the revelations of outsiders to get us to do the job of keeping our own house in order.

Finally, I'd like to reaffirm my vigorous support for your recent efforts to increase public understanding and knowledge of our tax system and how it works. The public confidence we require to operate the system can only be maintained if the public has a good idea of what it is they are supposed to have confidence in.

I applaud the steps that have been taken to remove the fear and apprehension that surround the audit of a tax return. I've seen some clippings recently describing courteous and efficient audits that do more than anything I know to build faith and confidence in our tax system. Commissioner Cohen's desire to make the tax return a more easily understood document should be similarly beneficial.

You represent one of the most skilled and dedicated group of public servants in government today. The proof can be seen not in anything I might say of you but in the record you are writing of day-to-day progress and achievement in tax administration.

As you have in the past, so I believe you will in the future, offer the imagination, perseverance and skill needed to make the most of opportunities to improve tax administration.

It has been a pleasure and a privilege to work with you. I wish you all continued success and good luck in the years ahead.

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Remarks of the Honorable Merlyn N. Trued, Acting Assistant Secretary of the Treasury for International Affairs, before the Municipal Bond Club of San Francisco, at the San Francisco Hilton Hotel Friday, March 26, 1965, 12:00 Noon PST

I am delighted to return once again to San Francisco and to have the opportunity to discuss one of the ranking problems facing the United States: our balance-of-payments position.

Let me at the outset repeat two facts that President Johnson has made crystal clear:

> The deficit in our balance of payments will be cut, and cut substantially over the months ahead in a strong move toward its complete elimination.
>
> The U.S. dollar will remain as good as gold.

There are few now who question the statement that the United States has for too long run large deficits in its international transactions. Since the first of this year, our loss of gold has amounted to $825 million. This alone is a vivid reminder that our balance-of-payments position must be corrected. I do not mean to suggest that our gold losses in themselves constitute any single yard stick for measuring our performance. Large and sustained gold losses are, however, a clear signal that all is not in order in this important area of our country's responsibilities.

During 1964, our expenditures of dollars abroad for the purchase of foreign goods and services, our outlays for military defense and economic aid, and outflows of our capital exceeded our receipts from sales of our products and services plus inflows of capital by $3 billion. During the first three-quarters of the year, our deficit gave every promise of reaching a targeted $2 billion level -- a level that would have represented substantial improvement on the $3.3 billion deficit of 1963. The deficit during the last three months of 1964, however, rose abruptly owing to a sharp increase in capital outflows. As a result, we gained only a minor and certainly inadequate improvement on the 1963 level.

In the market place, the financial testing ground for currencies around the world, this performance was reflected in the fact that the dollar was, as we say, "on the floor". As many of you are undoubtedly aware, the international payments system today has been constructed on the basis of the Bretton Woods Agreements Act of 1944. Under those arrangements, each country undertakes to assure that its currency will not be traded in the market place at prices differing from a stated par value by more than a certain margin.

For example, the par value of the German mark is four per U.S. dollar. The German authorities undertake to assure that it does not trade at a price higher than 3.97 per dollar or lower than 4.03 per dollar. At those outer margins, the authorities are committed either to buy or sell dollars for official account to insure that rates do not move outside those limits. Following through momentarily on the operational characteristics of the system, this means that foreign monetary authorities are buying dollars from the market when the dollar is "on the floor" -- thus adding to their reserves. At some point, a point dictated by central bank custom or regulation or historic standards -- amongst other things -- some monetary authorities abroad taking in dollars will convert a portion of these into gold. With $3 billion more flowing abroad than coming into the United States last year, one would expect some gold conversions. With a gold loss last year amounting to only $125 million, some part of recent heavier losses may well represent a carry-over from a previous time.

This is the way the gold exchange standard operates in the market sense, but in a more fundamental way it is characterized by large accumulations of reserve currencies in the monetary reserves of other countries.

During the ten-year period from December 31, 1953, to December 31, 1963, for example, the world's total monetary reserve assets rose from $53.3 billion to $70.2 billion, an increase of nearly $17 billion. New supplies of monetary gold provided slightly less than $6 billion of this amount -- a bit more than one-third of the total increase. Holdings by foreign monetary authorities of foreign exchange, principally in the form of dollars and sterling, rose nearly $8 billion, while claims on the International Monetary Fund, special U.S. bonds (Roosa bonds) and drawings under swap agreements provided together about $3 billion.

In aggregate terms foreign exchange holdings had reached $25 billion at the end of 1963, and represented 35 percent of the total of $70 billion.

There is, however, a rather striking difference between the over-all position of the world as a whole, and what has been going on in the major Continental European countries. During that same ten-year period, this group of countries, comprising eight members of the Group of Ten and Switzerland, more than accounted for

the total world increase in reserve assets, by adding $18-1/2 billion to their holdings. But in so doing they took a relatively moderate proportion in the form of foreign exchange, only about $5 billion, and actually increased the ratio of gold to their total reserve assets. This was made possible only by very substantial transfers from the gold reserves of the United States to these European countries.

For our own part, we fulfill our obligation by standing prepared always to buy or sell gold at $35 per ounce in transactions with foreign monetary authorities.

The system I have outlined represents the essence of the gold exchange standard -- a standard that has served, and can continue to serve, the world extremely well. Since 1950, world trade -- excluding that of the Soviet bloc -- has substantially more than doubled -- with total exports last year reaching more than $150 billion. Western Europe has followed reconstruction of its war devastated economy with continued vigorous and competitive expansion. The less developed countries have begun significantly to improve their intolerably low levels of

income. For the United States, our exports have doubled in the past ten years alone -- reaching $25 billion last year -- and this has been accompanied by strong domestic expansion unimpaired over recent years by inflationary threats. When, therefore, I say that the international payments system has served the world well, I mean it has provided the basis for dependable and needed improvement in the standards of living of people throughout the Free World.

As we have sought to deal with our balance-of-payments problem, we have become fully aware of the need for clear perspective that neither exaggerates nor minimizes the problem. We have sought to avoid the paths recommended by people on either extreme. There are those, the most outspoken perhaps residing abroad, who want to recapture and breathe new life into a payments system long discarded as inadequate or incapable of effective performance. Restoration of the so-called full gold standard, with or without a change in the price of gold, would turn the payments system into virtual chaos and trigger serious deflationary pressures throughout the Free World.

At the same time, some others recommend that gold be removed completely from the payments system. This is an equally threatening proposal. Gold has a long and historic role in the payments system and provides a required yard stick for the measurement of currency values. Most fundamentally of all, gold is generally acceptable to all as a means of payment in settling international balances. There is not, in the foreseeable future, an agreed alternative that will serve as well. Removing gold from playing any role, in the absence of such an alternative, would be highly disruptive and totally inconsistent with reaching our objective which is to maximize the international exchange of products to the betterment of all.

While proposals of these sorts serve no useful purpose, this does not mean that the payments system has stood still. Indeed, it has changed very substantially over recent years. Various steps have been taken to reinforce its capacity and adapt it to meet emerging needs. In a gradual and evolutionary way, the payments system has been altered without disruptive consequences to perform ever more dependably and effectively.

When a comparison is made between the events in the fall of 1960, the so-called gold rush days, and subsequent events of crisis threatening proportions, these improvements in the system are vividly evident. In the fall of 1960, a heavy speculative attack against most currencies shot the price of gold in the London market to over $40 per ounce. The pound sterling and the dollar came under heavy pressure and extraordinary measures were required to restore confidence in the system.

Since then we have come through the Cuban missile crisis, crises over Berlin, the assassination of a President, and a further sharp attack on the pound sterling just last fall -- but without accompanying widespread threats to confidence and without disruptive effects on the trade and payments system. Last fall, within a matter of hours, responsible financial officials of the major industrial countries put together assistance amounting to $3 billion of potential credits which Britain could use to meet an attack on the pound sterling. That display of cooperative action on the part of these countries did the job.

This display was of course a reflection of years of endeavor on the part of financial officials of these countries which recognized the need to form relationships on the basis of joint understandings of the problems faced. The entire array of financing techniques, including central bank swap arrangements, the issue of special U.S. securities, and arrangements providing added resources to the International Monetary Fund clearly reflect the changed system within which we are now working.

Some improvement in the balance-of-payments position of the United States has been fundamental to this progress. But the improvement, as I noted earlier, has thus far proved inadequate. It was in the light of this disappointing performance that President Johnson, just over a month ago, sent forward a special message on the balance of payments to the Congress.

The program that the President recommended recognized that we have reached that point at which a number of foreign countries view international reserves generally as being fully adequate. As a result, continued flows of dollars abroad into the reserves of Western European countries are not viewed favorably.

This means in essence that we must anticipate a substantial part of any deficit in the months ahead as requiring settlement in gold. The program announced last month promises to slash both our deficit and our gold losses.

The heart of the President's program is a voluntary cooperation program for the business and financial communities. It is designed to buttress the restraining effect on capital outflows of a more broadly based Interest Equalization Tax, and to stimulate the expansion of exports and repatriation of foreign earnings. The program also involves an intensification of our efforts to reduce government expenditures abroad, notably our overseas military expenditures, and encourage Americans to tour this country.

But the voluntary cooperation program is expected to provide the bulk of new balance-of-payments savings. For banks it involves a limiting of the increase in their foreign credits during 1965 to five percent of the December 31, 1964, level. The banks have been asked to give priority to export credits and loans to less developed countries within the over-all guidelines. A somewhat similar system is being used in the case of non-bank financial institutions in connection with their foreign lending or investment activities.

Industrial corporations are being asked, in effect, to establish a balance-of-payments budget in connection with their foreign operations and to improve their net contribution to the U. S. balance of payments in 1965 as compared with their 1964 record. They may wish to do it largely by increasing exports; or they may concentrate on the postponement or elimination of investments that they had planned to make abroad; or they may wish to secure more financing for such investments from foreign sources; or they may decide to remit larger amounts of their foreign earnings or shift back liquid funds that they had invested in foreign money markets. The companies thus have flexibility in achieving this improvement.

A considerable part of the improvement, however, is looked for in the capital accounts. I believe this group may find particular interest, therefore, in taking a brief look at developments in international capital markets in the light of the various measures that have been taken by the United States.

As you may know, the announcement of the Interest Equalization Tax in July, 1963, virtually ended the placement of new foreign security issues in the United States by other advanced countries with the exception of Canada, and this situation persisted through 1964. The result was that some of the upsurge in foreign security issues in the United States which had been occurring in recent years was shifted to European security markets. This pattern may be roughly illustrated by these comparisons. In 1961 about $1 of foreign bonds was issued in the United States for every dollar's worth issued in Europe. In 1962, $3 of foreign bonds were issued in the United States for every dollar's worth issued in Europe. In 1963, the ratio was about $2.50 to $1, with a much higher ratio in the first half of the year before the announcement of the Interest Equalization Tax. In 1964, the ratio was back to $1 to $1.

Total issues in both markets last year were almost twice the level of 1961. Advanced countries which had obtained little or no capital in European markets in 1961 or 1962 obtained very sizeable amounts in 1964.

Among such countries were Denmark, Finland, Norway, and, most notably, Japan. Traditional borrowers in European markets were meanwhile, as a group, maintaining the level of their borrowing.

Before commenting on the general significance of this situation, I would like to mention that of the almost $1 billion of new foreign bond issues in Europe last year, well over half was denominated in U. S. dollars -- a good indication of international confidence in the dollar as a stable unit of account and of its usefulness as an international means of payments. The growth in foreign dollar issues has been accompanied by a more frequent use of international underwriting groups in place of the traditional practice of confining an underwriting group to firms in the country of issue. The forming of international groups has been encouraged by the United States underwriting community to keep a hand in the foreign securities' business. A sizeable volume of foreign dollar bonds were sold to foreign buyers in the United States market by United States underwriters last year.

I cannot, of course, predict that the volume of new foreign issues in the European market will maintain the 1964 level of almost $1 billion. Japan, for example, which was a large borrower in Europe last year, will undoubtedly return to the United States market this year in view of the exemption from the Interest Equalization Tax granted on $100 million worth of borrowing in the United States by the Japanese Government or under Japanese Government guarantee, although one can hope that a substantial portion of the issues offered will continue to be bought by residents of the surplus countries of Western Europe. On the other hand, foreign borrowers who had been getting some of their capital in the form of long-term United States bank loans, free of the Interest Equalization Tax, may now attempt to obtain such capital through bond or note issues in European markets.

These developments are certainly encouraging. However, in a speech last week at Princeton, New Jersey, Secretary Dillon said that "the only really satisfactory long range solution to our present problem of excessive capital outflows lies in achieving a more attractive environment for investment within the United States through tax reduction and sustained growth, together with the development of far larger, far more efficient and far more flexible capital markets abroad. While there has been some encouraging progress in both of these directions, much more remains to be done."

The program which has been broadened and reinforced to correct our balance of payments position should encourage such further improvement. As this program takes increasing effect and dollars no longer flow in large volume into markets abroad, new insight into those markets should be gained. The Interest Equalization Tax itself has spotlighted some problems and provided the incentive for broadened activity by borrower and lender alike in markets outside the United States. There are a number of factors that affect the capital outflow from

the United States to other countries, including the differences in investment profitability, the degree of development of financial markets here and abroad, the effect of governmental participation in nationalized industries abroad, the effects of subsidies to preferred borrowers in European countries, and other factors in addition to the sheer size and fluidity of private savings in the United States. Developments in the months ahead should serve to clarify the relative importance of these various factors.

As a result of the working of these various institutional and market factors, long-term interest rates in Europe have been, throughout the post-war period -- with one or two notable exceptions -- quite high when viewed in terms of previous historical standards. Costs paid by local borrowers similarly often have little relationship to money market rates and to the official discount rates that influence them. Coupled with the facts that internal markets are constricted and that a full range of fiscal and monetary tools is, therefore, not available to the authorities, is the memory of strong inflationary spirals in the past.

Last year the cost of living, for example, increased in France by two percent, in Germany by three percent, in the United Kingdom by five percent, and in Italy and the Netherlands by six percent.

These characteristics of foreign markets and economies must be borne in mind when comparing relative interest rates. By contrast, in the United States last year, our broad and efficient market was channeling a massive flow of savings into domestic investment. The volume of funds raised in our credit markets last year was estimated at over $70 billion. The long history of confidence in our currency, coupled with stability of our prices in recent years, has provided strong incentive for individuals and investment institutions to commit funds freely at longer term. Our money market rates have of course risen by 1-1/2 percent, but the long term interest rate structure has essentially been stable over the past four years.

Many of the differences between Europe and the United States economy which I have mentioned are deep-seated and unlikely to change greatly in any short period. It would not be safe for us to assume that the operation of European security markets can permanently reduce the

pressure that foreign demands for United States capital have exerted on our balance of payments. Long-term interest rates in Europe which generally rose between the end of 1963 and the end of 1964 -- and in some European countries substantially -- are continuing to rise this year. This movement could well increase the relative attractiveness of the United States capital market to foreign borrowers, despite the Interest Equalization Tax. In view of this situation, you can understand why the President supplemented the IET by a direct appeal to the financial and business community to cooperate voluntarily in restraining capital outflows.

I am pleased to be able to say that the President's program is off to a very good start. The recognition by the leaders in all sectors of our economy has been most gratifying and preliminary indications are that a widespread participation in correcting our deficit is underway. Our payments position insofar as indicators are available, appears to have been running roughly in a balanced position since February 10.

This is evident in the facts that the dollar has been, and is, well off the floor against foreign currencies and that there has been a perceptible tightening in money markets abroad. Rates for dollar deposits in banks abroad have now receded somewhat from the rather high level initially reached after the February 10 message. Nevertheless the rates are higher than pre-February 10 and may well reflect a decline in dollar flows from the United States which have been, at least thus far, only partially offset by greater use in the market of dollars already lodged in foreign holdings abroad.

This then is what has been done and where we stand. Over recent years we have sharply improved our competitive position throughout the world. We have avoided inflationary pressures at home while achieving a very substantial expansion in our domestic economy. A continuation of this basic situation is fundamental to continued improvement in our balance-of-payments position. The payments system has worked well, is working well, and promises to continue to do so if only, as we will and must, continue to act responsibly and with clear purpose.

This does not mean either that we have solved all the problems or that we have made all the improvements that are possible in the payments system. Indeed, as we swing our accounts fully into balance, other problems will arise. A possible problem may face us for example in the form of a lack of liquidity in the system as a whole when dollars no longer flow abroad and increase reserves.

Any projection of future flows of new gold production into official monetary reserves is difficult, if not impossible. Nevertheless, if we take the five years 1959-1963 as a fair sample of recent levels and trends, we find that total free world gold production has averaged about $1.2 billion per year. The flow of new gold into the official reserves of free world countries and international monetary institutions -- after taking account of Soviet gold sales, on the one hand, and the amount of gold going into industrial and artistic uses and private hoarding, on the other hand -- amounted to a little less than $600 million per year. In percentage terms, the average rate of growth in official free world gold reserves over the last ten years has amounted to

a little over 1-1/2 percent per year, compared with substantially larger growth rates both in the total volume of international transactions and in the other types of foreign-exchange reserves which countries have been holding for the settlement of such transactions.

During the past ten years, new gold production supplied only about one-third of the growth in gold, foreign exchange and reserve claims on the International Monetary Fund, which represent the total reserve assets of the world, now totalling about $70 billion. It is very difficult to anticipate just what the world's needs for reserves will be when the United States deficit has been brought into equilibrium. Nevertheless, it is a reasonable assumption that the amount of gold available for monetary purposes will not alone be sufficient to provide for the desirable upward trend in reserves.

It was the awareness of these possible problems that might emerge that prompted two studies to be undertaken.

One involves an intensive exploration of the possibilities for the creation of an international reserve asset which would supplement gold and the dollar in official reserves and thus further reinforce the system. A variety of proposals are being thoroughly evaluated at this time to determine their feasibility for possible use. While an evaluation of various proposals is proceeding, however, it seems that any general agreement on an approach will only follow substantial improvement in our own payments position.

The second study will thoroughly explore the process by which a country adjusts to imbalance in its accounts.

Fortunately, as I hope you will agree, we have the time for the perceptive analyses which are required if we are to insure that whatever steps are taken will build upon the strong system we already have and thus strengthen rather than weaken that system.

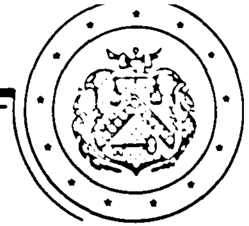
Let no one doubt the basic strength of the United States position. Our so-called basic accounts show a very favorable balance. Our commercial trade surplus ran last year at a truly substantial and impressive $3.7

billion -- up $1.4 billion over 1963. With an improved competitive position we can also achieve further strengthening of our exports. And we can anticipate an even further strengthening of our over-all position as we begin to realize the returns on our investments overseas, returns which have not yet materialized as income to the United States on a considerable part of the large investments made during the 1960s.

These factors, together with an economy producing an output that is moving above the $650 billion level, are impressive bulwarks for the United States and for our currency.

I would then simply repeat the propositions I set before you at the outset of these remarks. First, our balance-of-payments deficits will be slashed and eliminated. Second, our currency, the dollar, will remain as good as gold.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE A.M. NEWSPAPERS,
Tuesday, March 30, 1965.

March 29, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that tenders for the additional i on April 1 of two series of Treasury bills, one series dated December 31, 1964 (91 da maturity) and the other series dated September 30, 1964 (182 days to maturity), which offered on March 24, were opened at the Federal Reserve Banks on March 29. Tenders w invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, o thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing July 1, 1965		:	182-day Treasury bills maturing September 30, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equi Annual Rate
High	99.014	3.901%	:	97.988	3.980%
Low	99.006	3.932%	:	97.978	4.000%
Average	99.009	3.921% 1/	:	97.981	3.993% 1/

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

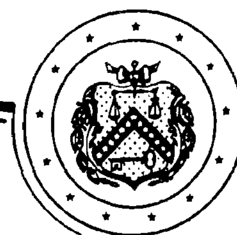
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 28,465,000	$ 18,465,000	:	$ 30,353,000	$ 21,853,0
New York	1,510,867,000	810,117,000	:	1,403,554,000	747,804,0
Philadelphia	25,544,000	13,544,000	:	21,316,000	13,316,0
Cleveland	31,823,000	31,823,000	:	63,140,000	40,440,0
Richmond	16,325,000	16,110,000	:	3,743,000	3,743,0
Atlanta	34,942,000	32,442,000	:	24,414,000	15,914,0
Chicago	167,259,000	123,643,000	:	273,188,000	85,888,0
St. Louis	41,228,000	34,728,000	:	17,549,000	14,549,0
Minneapolis	21,512,000	18,512,000	:	9,263,000	7,763,0
Kansas City	23,586,000	23,586,000	:	13,879,000	12,529,0
Dallas	22,450,000	16,950,000	:	11,845,000	7,145,0
San Francisco	137,211,000	60,211,000	:	65,134,000	30,919,0
TOTALS	$2,061,212,000	$1,200,131,000 a/		$1,937,378,000	$1,001,863,0

a/ Includes $230,678,000 noncompetitive tenders accepted at the average price of 99.0
b/ Includes $103,010,000 noncompetitive tenders accepted at the average price of 97.9
1/ On a coupon issue of the same length and for the same amount invested, the return these bills would provide yields of 4.02%, for the 91-day bills, and 4.13%, 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-1551

TREASURY DEPARTMENT



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March 29, 1965

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced last evening that tenders for the additional issue on April 1 of two series of Treasury bills, one series dated December 31, 1964 (91 days to maturity) and the other series dated September 30, 1964 (182 days to maturity), which were offered on March 24, were opened at the Federal Reserve Banks on March 29. Tenders were invited for $1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, 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 July 1, 1965		:	182-day Treasury bills maturing September 30, 1965	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.014	3.901%	:	97.988	3.980%
Low	99.006	3.932%	:	97.978	4.000%
Average	99.009	3.921% 1/	:	97.981	3.993% 1/

50 percent of the amount of 91-day bills bid for at the low price was accepted
30 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	$ 28,465,000	$ 18,465,000	:	$ 30,353,000	$ 21,853,000
New York	1,510,867,000	810,117,000	:	1,403,554,000	747,804,000
Philadelphia	25,544,000	13,544,000	:	21,316,000	13,316,000
Cleveland	31,823,000	31,823,000	:	63,140,000	40,440,000
Richmond	16,325,000	16,110,000	:	3,743,000	3,743,000
Atlanta	34,942,000	32,442,000	:	24,414,000	15,914,000
Chicago	167,259,000	123,643,000	:	273,188,000	85,888,000
St. Louis	41,228,000	34,728,000	:	17,549,000	14,549,000
Minneapolis	21,512,000	18,512,000	:	9,263,000	7,763,000
Kansas City	23,586,000	23,586,000	:	13,879,000	12,529,000
Dallas	22,450,000	16,950,000	:	11,845,000	7,145,000
San Francisco	137,211,000	60,211,000	:	65,134,000	30,919,000
TOTALS	$2,061,212,000	$1,200,131,000 a/		$1,937,378,000	$1,001,863,000 b/

Includes $230,678,000 noncompetitive tenders accepted at the average price of 99.009
Includes $103,010,000 noncompetitive tenders accepted at the average price of 97.981
On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 4.02%, for the 91-day bills, and 4.13%, 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-1551

STATEMENT OF FRED BURTON SMITH
ACTING GENERAL COUNSEL, U. S. TREASURY DEPARTMENT,
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS AND GOVERNMENT
INFORMATION OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS,
ON H. R. 5012 AND RELATED BILLS

March 30, 1965

Mr. Chairman and Members of the Subcommittee:

The Treasury Department has a broad and continuing interest in problems relating to the disclosure of information to the public. We, therefore, are deeply concerned with the various identical bills now before your Subcommittee, of which H. R. 5012 is the first, described as legislation to establish a Federal Public Records Law. This legislation is intended to require every agency to make all its records promptly available to any person unless the records consist of matters which fall within eight specific exemptions.

The Treasury Department agrees with the objective of providing the fullest possible information to the public. It has sought to realize this objective in its long dealings with the American public in its many areas of operation. The Department does business with literally millions of citizens through the collection of taxes, the management of customs, the issuance of public securities, the disbursements of large sums of money, and the provision of safety regulations for navigation, to name only a few of the many areas of contact between the Treasury and the citizens. We have received almost no complaints of insufficient knowledge by the public of matters with which they are concerned. The record of compliance by the various offices and bureaus of the Department with section 3 of the Administrative Procedure Act, providing for the

publication and availability of information, which was recently submitted to your Subcommittee, indicates that a great wealth of information has been published and made available to the public as a whole and to persons immediately concerned.

I should like to state at the outset that it is our sincere belief that problems in the area of public disclosure do not stem from an inadequacy of the existing laws on the subject, but from occasional misapplications, or failures in implementation, of such laws. In general, I believe that this Administration has a very good record in making information available to the public and that the existing provisions of the Administrative Procedure Act on publication of information constitute about as good a standard as can be devised for this purpose. It is for this reason, and because after earnest study we find that H. R. 5012 and the related bills would be seriously prejudicial to the effective conduct of the Government and damaging to many private individuals, that we have felt compelled to report to your Subcommittee that we are opposed to their enactment. We believe that we can demonstrate to the Subcommittee that if legislation is passed which requires all Government records, with a few noted exceptions, to be made available to any person, the Executive Branch will be unable to execute effectively many of the laws designed to protect the public and will be unable to prevent invasions of the privacy of individuals whose records have become Government records.

Our explanation will be set forth under the following headings: (1) Requirement that disclosure be made to persons who do not have a legitimate interest in a matter; (2) The inadequacies of the exemptions; (3) The inappropriateness of the court provisions; and (4) The doubtful constitutionality of the legislation.

(1) Requirement that disclosure be made to persons who do not have a legitimate interest in the matter.

A statute which requires that records be made available to "any person" must be tested quite literally by considering who "any person" might be. Professor Kenneth Culp Davis, author of the authoritative text Administrative Law, dramatized this point to the Senate Subcommittee on Administrative Practice and Procedure when it was considering similar legislation last summer by citing as an example of what would be possible under a provision such as that contained in this bill, that high school children playing games would be enabled to require all of the White House records to be made available to them, minus those in the exceptions. Another example he cited was the possibility of deranged persons requiring the records of the Justice Department concerning judicial appointments. While these are possibly extreme examples, it is not hard to point to other types of persons who could, and in large numbers undoubtedly would, demand quantities of records to further their own malicious, illegal or meddling purposes. The purposes behind demands might or might

not be known to the agencies, but in any case would seem to be irrelevant under the legislation.

Compelling such demands to be met would not only serve no useful purpose but would put the agencies involved under a legislative mandate to waste their time. Legislation such as that proposed would encourage irresponsible demands.

In this connection we should like to emphasize the difference between making information on Government operations available to the public and a requirement that all records must be made promptly available to "any person." In our opinion, section 3 of the Administrative Procedure Act makes an appropriate distinction between the right of the public to information which must be published or made generally available and the right of any single individual to demand the disclosure of nonpublic Government records for his personal benefit. In the latter case, the Government is required to honor such a demand if the person lodging it is a person properly and directly concerned with the information sought. The Subcommittee is urged to consider the problem from two perspectives: first, what information should be made generally available to the public as a whole, and, secondly, what should be the ground rules by which any single person can demand entry into Government files. We have observed that advocates of legislation similar to that under consideration usually speak of the right to obtain Government records in terms of the right of a person who has business with an agency, or of a newsman requesting

greater liberality on behalf of the press. Interests like these have a different claim upon Government information than have, say, local gossips interested in finding out personal information about their neighbors.

(2) Inadequacy of the exemptions.

The exemptions should be tested to ensure that they are adequate to safeguard Government records, the protection of which is required to ensure the public interest in the enforcement of law and legitimate individual privacy.

A recent example is the public interest in questions relating to the future of our coinage and whether it will continue to contain silver. In a very short while the Treasury Department will be sending to the Congress the results of a comprehensive study of all aspects of this problem which has been underway for many months, together with such recommendations for new coinage legislation as are deemed appropriate. Under the provisions of H.R. 5012 much of the data that have been compiled in this study - statistics, the results of the testing of various possible alloys for our coins, etc. - would have had to be made available upon request to any persons inquiring. Any person interested in speculating on what might happen to the price of silver or other metals could obtain access to this data. Misuse of the information or misinterpretation of such information as to what the Treasury's recommendations were likely to be

could have greatly aggravated the problem of the shortage of coins, which we have now rather successfully overcome, by stimulating the hoarding of such coins. We think that it is obvious that it was not in the public interest to make premature disclosure of this information. Although H.R. 5012 contains an exemption from the disclosure requirement for intra-agency memoranda dealing solely with matters of law or policy, the factual material I have mentioned would not have been protected.

A matter of great consequence to the public interest is the integrity of the nation's currency. Under the bills before you, any counterfeiter could obtain the records of how the ink and paper are prepared for the production of currency. Only trade secrets obtained from the public may be withheld under exemption (4), not those which are derived from the work of a Government agency, such as our Bureau of Engraving and Printing. Further examples could be given.

Exemption (1), the most important of the eight, relates to the necessity of protecting national defense secrets from disclosure. The phrase "national defense" might be interpreted by a district court as applying only to traditionally military concepts. In the modern world, however, the total commitment of our resources to national defense makes such a definition patently too narrow.

The stability of our monetary arrangements, for which the Treasury bears heavy responsibility, may be as crucial a weapon in our defense as a military weapon. The term "national security" would enable a court more easily to weigh these considerations and therefore would provide more adequate coverage.

I should like now to refer briefly to the problem of the disclosure of records which pertain to private corporations and individuals. Government records necessarily include much information on the business and personal lives of millions of individuals. The problem of disclosure has often been before the courts on the plea of private persons seeking to prevent Government disclosure of information concerning them. Another committee of the Congress is now intensively studying the question of possible invasions of privacy by the Government. It should be recognized that a great deal of undetected discovery of personal information by third parties having no legitimate claim for access to it would be possible if "any person" could obtain Government records concerning other persons unless those records came within exemptions (4) or (6). Therefore, the scope of these exemptions becomes crucial.

Exemption (4) is a most necessary one but it is not clear whether it is broad enough to include both information submitted to the Government under a pledge of confidentiality and information which is

tendered to the Government in confidence. There are established rules of evidence as to what information need not be submitted in court because it is "privileged." It is not clear whether the reference to information which is "privileged" in exemption (4) is restricted to such rules of evidence. The Treasury Department would like to be certain that the mass of personal information it holds in the files of the Internal Revenue Service, the Bureau of Customs and the Bureau of the Public Debt, for example, would be exempted under this section.

Exemption (6) for "personnel and medical files and similar matters, the disclosure of which would constitute a clearly unwarranted invasion of personal privacy," is even less clear. We wonder whether the reference to "similar matters" would include matters disclosed to the Treasury concerning persons who are not Government employees but are applicants for some privilege. These applicants might be seeking a Foreign Assets Control license, an alcohol or tobacco license, Merchant Marine certificates or authorization to practice as customhouse brokers. It is hoped that matters concerning them given to the Treasury would be as exempt from disclosure to "any person" as would be the personnel files of Treasury employees.

A greater ambiguity is presented by the proposed test for preventing disclosure; namely, "a clearly unwarranted invasion of personal privacy." An invasion of personal privacy is now a recognized tort whenever the invasion is unwarranted. An invasion of

privacy is unwarranted, according to modern law, when the public interest does not warrant the invasion. The test proposed in the statute would therefore appear to divide unwarranted disclosures into two classes, those which are clearly unwarranted and those which are unwarranted but not clearly so. We are of the view that no unwarranted invasion of privacy is justified and doubt the propriety of attempting to legitimatize it.

(3) Inappropriateness of the court provisions

The provisions in subsection (b) for district court action in the event of nondisclosure of Government records give extraordinary advantages in litigation to any person who may want to see Government records regardless of the propriety of his demand. The provisions, in our opinion, depart from the principles of fairness which characterize the judicial process and would deprive the Government of the benefit of many usual rules of judicial procedure.

In the first place, any disappointed person is given standing to sue an administrative agency without question, simply upon his complaint that he did not receive all of the records and files which he had demanded. Persons who are dissatisfied with other types of agency action or inaction are entitled to seek judicial relief if they have suffered legal wrong because of the agency action or have been adversely affected or aggrieved by such action within the meaning of any relevant statute. We believe that persons who are

disappointed in obtaining Government records and files should be provided with a judicial remedy only if they have thereby been wronged or adversely affected.

In civil litigation the plaintiff has the burden of showing that he is entitled to relief and if he does not make this showing, his complaint may be dismissed. Under the proposed legislation the complainant has no obligation to show any reason for obtaining Government records or any need for such records. He simply complains that the Government has not given him what he demanded. The propriety of his claim, no matter how contrary to the public interest it might be, apparently must be disregarded by the court. This seems to us not only an arbitrary limitation on the judicial process but one which may cause a heavy and unnecessary burden on the Judiciary as well as upon those in the Executive Branch who must defend these court actions.

Furthermore, Congress has provided that certain court actions are to be given procedence over other litigation in unusual cases which are of general public importance. The proposed legislation would provide precedence over all such expedited actions as well as over regular court actions for the demands of random individuals, regardless of the public interest in the satisfaction of their demands. My testimony has already indicated the types of mischievous and dangerous demands which the Government may be called upon to honor. Subsection (b) would make the Judiciary, in addition to the Executive, the victim of such demands.

Under the discovery rule (34) of the Federal Rules of Civil Procedure a litigant must show "good cause" for obtaining documents from the adverse party. However, since the proposed subsection (b) would open to any plaintiff or defendant in Government litigation Government records to the extent demanded (unless within the eight exceptions) the discovery rule is nullified insofar as the Government is concerned. The adverse party, however, remains protected by that rule. Furthermore, subsection (b) does not allow for the protection for privileged documents permitted under the Rules of Civil Procedure and under 18 U.S.C. 3500 in criminal cases for delivery of Government documents to the court in camera and, if the court finds necessary, sealed for appellate court review.

Finally, it is questionable whether district courts should be invited to engage in a contest with administrators and to punish for contempt any administrator with whose judgment the courts may disagree. If an agency has declined a particular disclosure request it would be doing so in conformity with its understanding of the law and regulations. The impropriety of a district judge imposing a contempt sentence and arrest upon an officer of an agency who is complying with the agency's regulations was pointed out by the circuit court in a well-known decision reversing the district judge's agency rules. (Appeal of United States Securities and Exchange Commission, 226 F.2d 501 (6th Cir. 1955))

(4) <u>The doubtful constitutionality of the legislation</u>.

Aside from the questions arising from the test of the proposed legislation, there is the basic question whether the legislation is constitutional. The President has the constitutional responsibility under Article II to preserve the confidentiality of documents and information the disclosure of which would be contrary to the public interest in the faithful execution of the laws. The proposed legislation would remove this responsibility from the President and constitute an attempt to exercise it by the Congress. Such action by Congress would appear to violate the separation of powers which is basic to the Constitution. When 5 U.S.C. 22 was amended in 1958 with respect to Government information, the Senate in its debate recognized the constitutional power of the President to withhold information the disclosure of which would be contrary to the public interest. (104 Cong.Rec. 15688-89, 15696 (1958))

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I have, in my statement, cited some examples of disclosure which would be required under the proposed bills which would be damaging either to the general public interest or to the private interests of many individuals. These have been cited out of a sincere desire to be of assistance to the Subcommittee. Should the committee

decide to recommend legislation in this area, I should certainly hope that it would see fit to make amendments, particularly as to the scope of the eight exemptions, to deal with these problems. However, I would not be honest with the committee if I did not express my conviction and that of the Treasury Department that no effort at legislation in this area will be beneficial unless it recognizes and contains express provision for the executive to prohibit disclosure of information on grounds of the public interest. As I have pointed out, we believe this is a constitutional prerogative of the executive and one that he must be able to exercise. If this reservation to the executive were to be incorporated in the bill, then I believe that it is possible that my suggestions might be of assistance to the committee in its further consideration of this legislation. Should it be the committee's conclusion, on the other hand, that this reservation should not be included in the legislation, then I am not sanguine about the possibility of its preparing a bill which my Department would find acceptable, because I don't believe that it is possible for the Congress or anyone else to conceive a bill that can adequately anticipate and specify all of the situations in which, to protect the public interest, the Government should be able to refuse to disclose information.

I appreciate very much the opportunity which the Subcommittee has given me to express the views of the Treasury Department.

Mr. Ahearn lectured in finance at the University of Pennsylvania. He is the author of a number of articles on finance and of the book Federal Reserve Policy Reappraised: 1951-1959. He is a member of the American Finance Association and the American Statistical Association.

Mr. Ahearn is a native of New York City and received A.B. and Ph. D. degrees from Columbia College and Columbia University.

March , 1965

DANIEL S. AHEARN RESIGNS FROM TREASURY

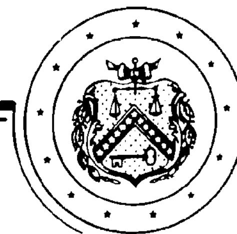
Secretary of the Treasury Douglas Dillon announced today the resignation of Daniel S. Ahearn, Assistant to the Secretary for Debt Management, effective April 4, 1965.

~~In accepting~~ Mr. Ahearn's resignation "with sincere regret", ~~Secretary Dillon said~~: "The success of the Treasury debt management effort in the last 18 months has, of course, been the result of a team effort, but you have been a leading member of the team. Your sure sense and fundamental understanding of the market, your attention to detail, your flexibility of mind, and your sustained and productive efforts have ensured wise decisions. I have always been able to count on the soundness of your recommendations in an area where errors of judgment can be disastrous, and I am grateful for your help."

Mr. Ahearn ~~is leaving~~ to join Wellington Management Company, investment adviser to the Wellington Fund, as Vice President and member of the Investment Committee with primary responsibility for bonds and other senior securities.

Mr. Ahearn was appointed to the Treasury on November 18, 1963. Prior to that date he had been Vice President of Wellington Management Company and an officer of the First National City Bank of New York.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 29, 1965

FOR IMMEDIATE RELEASE

DANIEL S. AHEARN RESIGNS FROM TREASURY

Secretary of the Treasury Douglas Dillon announced today the resignation of Daniel S. Ahearn, Assistant to the Secretary for Debt Management, effective April 4, 1965.

Mr. Ahearn will join Wellington Management Company, of Philadelphia, Pennsylvania, investment adviser to the Wellington Fund, as Vice President and member of the Investment Committee with primary responsibility for bonds and other senior securities.

Secretary Dillon accepted Mr. Ahearn's resignation "with sincere regret" and said: "The success of the Treasury debt management effort in the last 18 months has, of course, been the result of a team effort, but you have been a leading member of the team... I have always been able to count on the soundness of your recommendations in an area where errors of judgment can be disastrous, and I am grateful for your help."

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D-1553

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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

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 each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Banks on April 8, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 8, 1965. Cash

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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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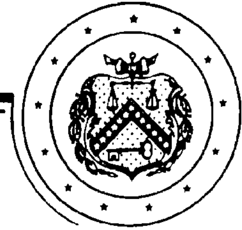
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 31, 1965

FOR IMMEDIATE RELEASE

REGIONAL FILING OF TAX RETURNS

Treasury Secretary Douglas Dillon today announced proposed legislation to provide for regional filing of federal income tax returns -- legislation which will result in eventual savings estimated at $3.8 million a year. Chairman Mills of the House Ways and Means Committee is expected to introduce the proposed legislation today.

Under this legislation, all tax returns would ultimately be filed directly with one of the seven regional service centers now located throughout the country. At present, taxpayers file returns with fifty-eight district offices which then send the returns to service centers. The legislation is expected to speed up the processing of tax returns, including the issuance of refund checks. No services the taxpayers now receive from local Internal Revenue district offices would be curtailed as a result of the proposed legislation. In fact, since the district offices would be relieved of the burden of receiving returns and shipping them to regional service centers, district offices would have a greater opportunity to provide taxpayer service.

The proposed regional filing of returns would be phased-in over a period of several years. A limited test of regional filing of refund returns is being conducted in the Southeast Region this year.

The proposed legislation would not affect the current filing of 1964 returns.

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D-1555

AGREEMENT REACHED ON US-INDIA TAX TREATY

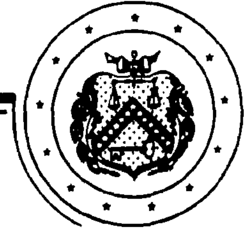
Agreement on a tax treaty between India and the United States was reached at a technical level between delegations from the two countries, the Treasury Department announced today. The agreement will be submitted to the respective governments for approval as soon as possible.

An important feature of the agreement provides that the United States will grant a 7 percent investment credit to American companies making investments in India.

Another important feature of the agreement is that industrial and commercial profits of an American company will be subject to tax only if it has a permanent establishment in India.

The talks were held in Washington from March 22 to March 30 between an Indian delegation, headed by Mr. V. T. Dehejia, Secretary to the Government of India in the Ministry of Finance, and a United States delegation, headed by Stanley S. Surrey, Assistant Secretary of the Treasury.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 31, 1965

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Agreement on a tax treaty between India and the United States was reached at a technical level between delegations from the two countries, the Treasury Department announced today. The agreement will be submitted to the respective governments for approval in a month or two.

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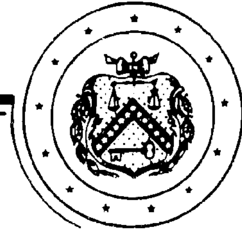
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 31, 1965

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES PROPOSED REGULATIONS AND PROCEDURES
UNDER SECTION 482

The Treasury made two announcements today affecting the taxation of American firms and their subsidiaries, including those with foreign operations:

1. Publication by the Internal Revenue Service of proposed regulations under Section 482 of the Internal Revenue Code. Section 482 gives the Internal Revenue Commissioner authority to adjust or to allocate the incomes of various members of a group of firms under common control in order to accurately reflect the true income of such members or to prevent possible tax avoidance. The proposed regulations issued today set forth guidelines for the application of this section to certain types of cases. Additional proposed regulations dealing with other types of cases will be published shortly.

2. Publication by the Treasury of outlines of procedures which the Internal Revenue Service will follow in allowing taxpayers to adjust their accounts to reflect

allocations made by the Commissioner under Section 482.

The proposed regulations under Section 482 and the new procedures announced today are part of the Treasury Department's program of specifying the administrative policies followed in applying certain sections of the law which have an impact on the operations of United States taxpayers with foreign affiliates. Work will continue on those portions of the proposed regulations under Section 482 not yet issued and also on guidelines under Section 367 of the Code. Section 367 requires taxpayers who desire tax-free treatment of transactions involving foreign corporations to establish prior to the transaction that it does not have tax avoidance as one of its principal purposes. The guidelines under Section 367 will set forth the rules which will be applied by the Internal Revenue Service in passing upon applications for rulings under that section.

Descriptions of the proposed regulations and of the new procedures are attached.

Proposed Regulations

The Commissioner of Internal Revenue has, through the powers granted him under Section 482, broad discretion in adjusting incomes within groups of commonly controlled corporations or other entities to accurately reflect the true incomes of the members of the group or to prevent tax avoidance. For example, he may allocate expenses paid by one member of a group of corporations to another member of the group where the expenses are incurred for the benefit of the latter without adequate reimbursement. Again, he has the authority to adjust the prices charged for goods sold by one member to another where the prices charged are not a fair reflection of the proper price, or to require a proper charge where money or property of one member is made available to another.

Section 482 applies to any group of corporations under common control, including groups in which one or more foreign corporations are members. The proposed regulations issued today establish the standards to be used by the Internal Revenue Service in making allocations or adjustments in certain types of cases -- those in which money or tangible property or services are exchanged between members. The proposed regulations do not cover transfers of intangible property, such as patents or trademarks, between

members, nor do they cover cases in which property is sold by one member to another. Proposed regulations covering such transactions will be issued in a few months.

The purpose of these regulations is to offer taxpayers a guide, so that they may carry out transactions confident that they are complying with the rules and without concern that they will later have their income and their tax liability increased as a result of Section 482 allocations. These regulations also include the rules which the Internal Revenue Service will follow in making Section 482 adjustments for those taxpayers who do not comply.

The standards set forth in the proposed regulations include:

1. Interest must be charged on loans or advances made by one member to another. In the usual case, the proposed regulations provide that the taxpayer should charge 4-percent interest, but if the taxpayer does not do so, the Internal Revenue Service is permitted to set up an allocation equal to a proper interest charge, not exceeding 5 percent.

2. Services rendered by one member of a group to other members are generally to be reimbursed at cost, including reimbursement for related indirect costs.

3. If tangible property is made available by one member of the group to another, the latter member must be

charged. This charge will usually equal a portion of the cost of the property, related expenses, and a fee.

Because these regulations affect different types of cases, they are of necessity rather detailed. Therefore, the statements above are subject to a number of conditions and exceptions.

New Procedures

Under the new procedures announced today, a firm which has had its taxable income increased because of a Section 482 allocation will be able to adjust its accounts in light of the allocation by excluding from its taxable income certain amounts received from the other party to the transaction which gave rise to the allocation. The excludable amounts, which cannot exceed the increase in taxable income arising from the Section 482 allocation, are:

1. Dividends paid to the taxpayer by the other party which are considered for United States tax purposes to have been received in the year to which the allocation relates.
2. Amounts paid to the taxpayer by the other party within 90 days after the allocation is finally agreed upon.

An example of the working of this procedure is:

In 1963, D sold goods which should have been priced at $100,000 to F, its foreign subsidiary, for $80,000; F resold the goods for $130,000, after incurring $10,000 in expense, and paid $10,000 in foreign taxes on its $40,000 income. In 1963, F paid D a dividend of $15,000 out of its 1963 earnings, which was subject to United States tax of $5,400, after allowance of a foreign tax credit. In 1965, the Internal Revenue Service on audit adjusts D's sales price of the goods to $100,000, thereby

increasing D's income by $20,000 and its tax by $10,400. D may elect to treat the $15,000 1963 dividend as being a part payment by F of the additional price arising under the Section 482 allocation rather than a dividend, and thus exclude it from its taxable income. The increase in D's tax for 1963 would therefore be $5,000, the $10,400 tax on the additional income arising from the Section 482 allocation less the $5,400 tax which already had been paid by D on the dividend. D would also be entitled to receive tax free, within 90 days after the allocation is agreed to, an additional $5,000 from F to reflect the balance of the $20,000 price adjustment. (If D elected not to exclude the 1963 dividend from its income, or elected to exclude only a part of it, the $5,000 which could be later received tax free would be increased accordingly.)

This new procedure will apply to all taxpayers whose income was increased by reason of a Section 482 allocation in their taxable years prior to January 1, 1963. For years thereafter it will apply to all such taxpayers unless the Internal Revenue Service finds that one of the principal purposes for making the arrangements which gave rise to such an allocation was avoidance of income tax.

Taxpayers electing to treat as tax-free amounts paid to them after the date of the allocation will be required to treat such

amounts as having been loaned to the other member from the end of the year to which the allocation related (1963, in the example given above) to the date of payment and to collect interest for the intervening period at the rate required in the proposed regulations (though no interest will be required in respect of years prior to 1963).

Special rules will apply in determining the proper amount which can be excluded from the income of taxpayers who have availed themselves of the benefits of Section 3 of Revenue Procedure 64-54, which allows an offset against United States taxes for certain foreign taxes paid in connection with amounts allocated under Section 482.

A statement of the detailed rules governing these new procedures will be issued shortly by the Internal Revenue Service.

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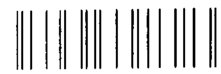
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