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TREASURY DEPARTMENT

United States Savings Bonds Issued and Redeemed Through November 30, 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	4,993	10	.20
Series F & G-1941 - 1952	29,521	29,442	79	.27
Series J and K - 1952	400	392	8	2.00
UNMATURED				
Series E: 3/				
1941	1,849	1,592	256	13.85
1942	8,166	7,059	1,107	13.56
1943	13,147	11,392	1,755	13.35
1944	15,318	13,160	2,159	14.09
1945	12,016	10,095	1,921	15.99
1946	5,413	4,330	1,083	20.01
1947	5,110	3,921	1,189	23.27
1948	5,272	3,949	1,323	25.09
1949	5,195	3,810	1,385	26.66
1950	4,536	3,260	1,276	28.13
1951	3,928	2,820	1,108	28.21
1952	4,113	2,914	1,199	29.15
1953	4,689	3,203	1,485	31.67
1954	4,770	3,146	1,625	34.08
1955	4,963	3,137	1,826	36.79
1956	4,761	2,929	1,832	38.48
1957	4,460	2,691	1,769	39.66
1958	4,321	2,473	1,848	42.77
1959	4,044	2,287	1,758	43.47
1960	4,035	2,153	1,882	46.64
1961	4,055	2,014	2,041	50.33
1962	3,902	1,844	2,058	52.74
1963	4,329	1,797	2,531	58.47
1964	4,226	1,584	2,642	62.52
1965	3,059	675	2,384	77.93
Unclassified	356	366	-10	-
Total Series E	140,033	98,602	41,430	29.59
Series H (1952 - Jan. 1957) 3/	3,670	1,830	1,840	50.14
H (Feb. 1957 - 1965)	7,053	1,149	5,904	83.71
Total Series H	10,723	2,979	7,745	72.23
Total Series E and H	150,756	101,581	49,175	32.62
Series J and K (1953 - 1957)	3,334	2,190	4/ 1,145	34.34
All Series: Total matured	34,925	34,827	96	.27
All Series: Total unmatured	154,090	103,770	50,320	32.66
All Series: Grand Total	189,015	138,598	50,416	26.67

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 November 30, 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	4,993	10	.20
Series F & G-1941 - 1952	29,521	29,442	79	.27
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1957	4,460	2,691	1,769	39.66
1958	4,321	2,473	1,848	42.77
1959	4,044	2,287	1,758	43.47
1960	4,035	2,153	1,882	46.64
1961	4,055	2,014	2,041	50.33
1962	3,902	1,844	2,058	52.74
1963	4,329	1,797	2,531	58.47
1964	4,226	1,584	2,642	62.52
1965	3,059	675	2,384	77.93
Unclassified	356	366	-10	-
Total Series E	140,033	98,602	41,430	29.59
Series H (1952 - Jan. 1957) 3/	3,670	1,830	1,840	50.14
H (Feb. 1957 - 1965)	7,053	1,149	5,904	83.71
Total Series H	10,723	2,979	7,745	72.23
Total Series E and H	150,756	101,581	49,175	32.62
Series J and K (1953 - 1957)	3,334	2,190	4/ 1,145	34.34
All Series: Total matured	34,925	34,827	96	.27
All Series: Total unmatured	154,090	103,770	50,320	32.66
All Series: Grand Total	189,015	138,598	50,416	26.67

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BUREAU OF THE PUBLIC DEBT

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(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	4,993	10	.20
Series F & G-1941 - 1952	29,521	29,443	77	.26
Series J and K - 1953	864	811	54	6.25
UNMATURED				
Series E: 3/				
1941	1,851	1,594	257	13.88
1942	8,170	7,065	1,105	13.53
1943	13,151	11,402	1,749	13.30
1944	15,330	13,172	2,158	14.08
1945	12,026	10,109	1,917	15.94
1946	5,418	4,336	1,082	19.97
1947	5,114	3,927	1,187	23.21
1948	5,276	3,955	1,321	25.04
1949	5,199	3,816	1,383	26.60
1950	4,540	3,267	1,273	28.04
1951	3,932	2,826	1,106	28.13
1952	4,115	2,921	1,194	29.02
1953	4,693	3,212	1,481	31.56
1954	4,774	3,156	1,619	33.91
1955	4,968	3,153	1,815	36.53
1956	4,770	2,938	1,832	38.41
1957	4,466	2,699	1,768	39.59
1958	4,327	2,481	1,846	42.66
1959	4,050	2,294	1,756	43.36
1960	4,042	2,162	1,880	46.51
1961	4,062	2,025	2,037	50.15
1962	3,909	1,855	2,054	52.55
1963	4,337	1,815	2,523	58.17
1964	4,233	1,613	2,620	61.89
1965	3,373	780	2,593	76.88
Unclassified	349	399	-50	-
Total Series E	140,476	98,971	41,504	29.55
Series H (1952 - Jan. 1957) 3/	4,238	2,030	2,208	52.10
H (Feb. 1957 - 1965)	6,523	986	5,536	84.87
Total Series H	10,761	3,016	7,744	71.96
Total Series E and H	151,237	101,988	49,249	32.56
Series J and K (1954 - 1957)	2,871	1,796	1,075	37.44
All Series: Total matured	35,388	35,247	141	.40
All Series: Total unmatured	154,108	103,784	50,324	32.66
All Series: Grand Total	189,496	139,031	50,465	26.63

1/ Includes accrued discount.
2/ Current redemption value.
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BUREAU OF THE PUBLIC DEBT

[illegible]

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 Stat 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 sol 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 here under are sold is not considered to accrue until such bills are sold, redeemed or othe wise 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 amou 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, prescrib the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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printed forms and forwarded in the special envelopes which will be supplied by Feden 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 bil 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 Resen Banks and Branches, following which public anouncement 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 Treasu 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 Bank on December 9, 1965 (16), in cash or other immediately available fund or in a like face amount of Treasury bills maturing December 9, 1965 (17). 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 issu price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, December 1, 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 December 9, 1965, in the amount of $2,202,148,000, as follows:

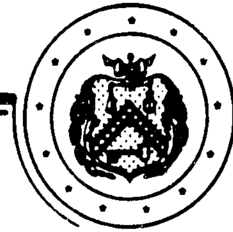
91-day bills (to maturity date) to be issued December 9, 1965, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated September 9, 1965, and to mature March 10, 1966, originally issued in the amount of $1,000,375,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated December 9, 1965, and to mature June 9, 1966.

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, December 6, 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 decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



WASHINGTON, D.C.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury 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 Bank on December 9,1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 9,1965. 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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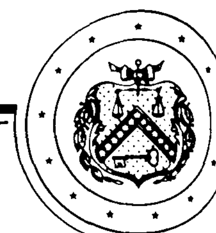
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 1, 1965

FOR IMMEDIATE RELEASE

TREASURY DECISION ON PERCHLORETHYLENE SOLVENT
UNDER THE ANTIDUMPING ACT

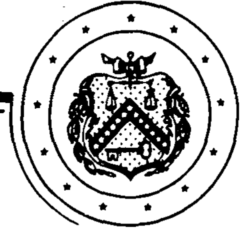
The Treasury Department has determined that perchlorethylene solvent from France, manufactured by Solvay & Cie, Paris, France, is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. A "Notice of Intent to Discontinue Investigation and to Make Determination That No Sales Exist Below Fair Value," was published in the Federal Register on October 5, 1965, stating that price revisions with respect to perchlorethylene solvent from France, manufactured by Solvay & Cie, Paris, France, were 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 France, manufactured by Solvay & Cie, Paris, France, without regard to any question of dumping.

Imports of the involved merchandise received during the period September 1, 1964, to August 31, 1965, amounted to approximately $450,000.

TREASURY DEPARTMENT



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FOR RELEASE P.M. NEWSPAPERS
THURSDAY, DECEMBER 2, 1965

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE NATIONAL ASSOCIATION OF MANUFACTURERS'
ANNUAL CONGRESS OF AMERICAN INDUSTRY
AT THE WALDORF-ASTORIA HOTEL, NEW YORK, NEW YORK
THURSDAY, DECEMBER 2, 1965, 12:30 P.M., EST.

For the last 57 months -- for nearly five years -- this nation has experienced an economic expansion without parallel in our peacetime history.

That expansion -- which began early in 1961 -- has been broadly based, and its benefits have been broadly shared. For the period dating from the month the expansion began, they include:

-- a 35 percent rise in our national output;

-- a 32 percent rise in consumer spending;

-- a 32 percent rise in personal income;

-- a 39 percent rise in manufacturing production;

-- a 51 percent rise in business investment in plant and equipment;

-- and an 84 percent rise in corporate profits after taxes.

These impressive economic gains -- like the advance that produced them -- did not simply happen. Indeed, five years ago they were far from a foregone conclusion. The decade of the Sixties -- the "Soaring Sixties" some had predicted -- had scarcely begun when we fell into our fourth postwar recession. We looked back upon the decade of the Fifties and saw little to fire our hopes for the future. To look back, in fact, was only to become painfully aware that each of the three prior recessions had been followed by shorter and weaker recoveries, and that the previous recession had produced the largest peacetime budget deficit in our history. Unemployment

was intolerably high. Business investment had for years failed to maintain anything like adequate levels of growth -- and remained far less than we needed to generate more vigorous economic growth and a stronger competitive position in world markets -- including our own home market which was becoming increasingly open to import competition. At the same time, a series of balance of payments deficits -- averaging almost $4 billion a year for three years -- rendered the dollar vulnerable and threatened the international monetary system which it supported.

Indeed, the possibilities we faced were dire: economic stagnation at home; interruption of the unprecedented postwar growth of Free World trade and economic development; and the weakening of the financial base of U. S. political, diplomatic, and military power.

We were firmly convinced that the only right answer to our problems on both the domestic and international fronts lay in reinvigorating the private sector as the prime mover in the achievement of our economic goals. The private economy simply could not do its job as long as incentives were dulled and it continued to labor under excessively high wartime tax rates -- rates originally applied to restrain strong inflationary pressures that accompanied wars and emergencies.

We were convinced, in particular, that we could not sustain economic growth for any long period of time without maintaining a high rate of capital formation -- not just in fits and starts, but steadily over time, in response to expanding markets and emerging profit opportunities. There was a disturbing tendency in the 1950's for business fixed investment to decline as a percentage of total national output. Even worse, that decline was permitted to occur at a time when many other countries were rapidly expanding their capital facilities and replacing obsolescent plant and equipment. As a result, those countries became increasingly formidable competitors in international markets.

We saw, therefore, that our first step toward strong and sustained economic growth was to free American enterprise from policies that had long restricted investment. We believed that American business ingenuity and drive, freed of artificial brakes upon expansion and given proper Government encouragement, could

not only meet the challenge of foreign competition but could also provide the economic growth and jobs that were so badly needed here at home. We saw no reason to continue with policies that hindered investment. So we moved quickly to carry out two major fiscal steps that would provide substantial and long overdue increases in the incentives for private domestic investment in new plant and equipment:

First, the Treasury greatly liberalized depreciation for tax purposes -- resulting in substantially increased cash flow. That was the first such revision in more than twenty years -- although those twenty years had witnessed vast changes in industrial practice. And earlier this year, as you know, these rules were further liberalized.

Second, a tax credit of seven percent on new investment in machinery and equipment was included as a key element in the Revenue Act of 1962, and was further strengthened in the Revenue Act of 1964. This measure not only added a further increase to cash flow but also increased the rate of profitability in new investment.

We followed these measures with the massive reductions in corporate and individual income tax rates enacted last year, and with the enactment earlier this year of a repeal or reduction of the remaining wartime excise taxes.

All of these measures, at next year's levels of income, will add up to a net total of over $20 billion worth of annual tax reduction that would otherwise have burdened the private sector. And yet, during that same five year period -- from fiscal 1961 to 1966 -- Federal revenues will have increased more than $18 billion because of the increased scale of corporate profits and personal income created by the rapid growth of the economy. This revenue increase is substantially greater than the increase for the previous five years, when there was no tax reduction. Moreover, despite the massive tax reduction in the Revenue Act of 1964, the administrative budget deficit was reduced from a projected $11.9 billion in fiscal 1964 to $8.2 billion and to $3.5 billion in fiscal 1965.

These tax measures have furnished dramatic new incentives and opportunities for the private individual and business to play the dynamic role that must be theirs under our free

enterprise system. They have, for example, combined to raise the profitability of a typical investment in new equipment by more than one-third. They have also contributed to a large and steady rise in the self-generated funds of existing businesses -- a contribution reflected in the fact that corporate profits after taxes together with capital consumption allowances have risen without interruption from $51.6 billion in 1961 to $71.2 billion in 1964, and to $81.1 billion in the third quarter of this year.

In fact, one of the most striking characteristics of this expansion is its balance and durability -- characteristics demonstrated not only by the growth in cash flow, but also in the strong, steady rise in corporate profits after taxes throughout this expansion. We have thus avoided the unhappy pattern of other expansions when profits after taxes would show a strong surge early in the recovery and then become caught in a growing squeeze exerted by increased labor and other costs. In the third quarter of this year, corporate profits after taxes stood at an annual rate of $44.4 billion -- thus assuring the continuation of the trend which has kept profits rising from $26.7 billion in 1960, to $27.2 billion in 1961, to $31.2 billion in 1962, to $32.6 billion in 1963, to $37.2 billion in 1964.

This sustained profit rise -- like our other economic gains -- is no mere accident. It is the result of a mix of policies designed to attack problems of inadequate growth and excessive unemployment while at the same time enabling us to avoid inflation and move toward equilibrium in our balance of payments.

That mix included the effective coordination of fiscal policies with the monetary programs of the Federal Reserve Board -- programs which combined a reasonably expansionary credit policy and a relative stability of long-term interest rates to facilitate domestic growth with several increases in short-term interest rates to diminish outflows of short-term capital that would harm our efforts to achieve equilibrium in our balance of payments.

It included also a substantial degree of recognition by the private sector of the intrinsic economic value of the principles of the wage-price guideposts of the Council of Economic Advisers, with their retarding effect on wage rises in excess of productivity increases, and increases in material and other costs of manufacturing and distribution.

To all of these measures, the private sector has responded handsomely -- and we witness the results not only in all the gains I have cited, including the unbroken rise in profits, but in the excellent record of wage-price stability which has been crucial in preventing the appearance of a profit squeeze. That record is not spotless -- but the fact remains that, for manufacturing as a whole, wage increases since 1960 have stayed within the bounds of productivity growth, and today factory unit labor costs in manufacturing are actually a bit lower than they were when this expansion began.

I have, therefore, every justification for my conviction that, at no time in our history, has our national government pursued with such vigor or such success public policies designed to promote private economic growth than over the past five years.

I would also venture to suggest that neither the national economy as a whole -- nor the business community in particular -- has fared better than they have over the past five years.

Our successes over those years have stemmed in great measure from the willingness of both government and business to revise old assumptions and to put aside old prejudices -- to work as allies rather than as antagonists -- to seek, not cause for senseless conflict, but common cause in the national interest. For, over those years both government and business have come to recognize some very crucial and inescapable facts of economic life.

Government, for its part, has come to recognize and to respect -- in deed as in word -- the primary role that private initiative and incentive and ingenuity must play if we hope to realize our economic potential and reach our national goals.

Business, for its part, has come to recognize and to respect the responsibilities of government in furthering the economic as well as social and political welfare of the nation.

I have spoken of this partnership often in recent weeks and months. I have done so -- and do so now -- because I believe in it, because President Johnson believes in it, and because the nation needs it.

President Johnson and his Administration have more than demonstrated their faith in the American businessman -- of their belief in the vigor and viability of our private enterprise system -- and of their recognition of the vital role that the American businessman can, and must, play in the promotion of our national welfare.

Today, more than ever, the national welfare demands that that faith be justified -- for today, more than ever, continued economic expansion depends upon a growing partnership for progress between the private and public sectors of our economy.

There will -- there must -- be honest differences, but let them not be divisive. There will -- there must -- be mutual criticism when those differences occur, but let it be constructive, not destructive, criticism.

Let no one mistake the challenge that today confronts this nation -- a challenge that must call forth from us all a wholehearted commitment to the national interest.

On July 28 of this year, after securing all the information available to him and hearing the advice of spokesmen for every admissible point of view, after exhausting every honorable means to bring the situation in Vietnam and Southeast Asia to the negotiating table, and after searching his own mind and heart for countless hours, President Johnson told the world why he had been forced to make the decision to send tens of thousands of our young men into battle in Vietnam to fulfill our commitment to stand against aggression.

He said:

> "I have been in public life for more than three decades. In each of those thirty-five years, I have seen good men and wise men work to bring the blessings of our land to all our people.....
>
> "It is what I have wanted all my life. And I do not want to see all those hopes -- the dreams of so many people for so many years -- drowned in the wasteful ravages of war.
>
> "I will do all that I can so that never happens.

"But I also know, as long as there are men who hate and destroy we must have the courage to resist or see it all -- all that we have built and all that we hope to build -- dreams, freedom and all -- all swept away on the flood of conquest.

"So this too shall not happen, we will stand in Vietnam."

Since that day, and that statement, every American, whether in public or in private life, has carried an added burden of responsibility. This is particularly true in the economic and financial sphere. Let me tell you why:

In amassing the gains from our expansion we have narrowed the gap between demand and supply so that today it is at the lowest point in our 57-month expansion. Private demand is increasing at a healthy rate and defense expenditures are rising because of accelerating action in Vietnam at a time when the availability of manpower, particularly skilled manpower, and unused efficient productive capacity, are at their lowest levels since early 1961.

We now have some new preliminary estimates of the administrative budget for the fiscal year 1966 which began last June 30. It is expected that expenditures will fall within the range of 105 to 107 billion dollars -- some five to seven billion dollars more than originally estimated last January when the 1966 budget was originally submitted. The increase reflects primarily the increased defense expenditures resulting from Vietnam. It also reflects some higher expenditures as a result of interest payments, increased crop output, higher pension payments, and other uncontrollable items. Controllable expenditures will actually be below original estimates, testifying to the discipline that President Johnson has enforced on the Federal budget.

While budget expenditures are rising, the expected deficit is rising by a smaller amount as a result of increased revenues over January estimates. The deficit for fiscal 1966 is now estimated at seven to eight billion dollars as compared to the $3.5 billion deficit for fiscal 1965. Thus, while the budget will be more of a stimulative force in fiscal 1966, the additional stimulus will be appreciably less than many have expected. I believe that the new estimates do not imply any major inflationary threat stemming from the increased expenditures and the higher deficit currently projected for the fiscal year 1966 -- ending next June 30 -- although the situation obviously calls for careful watching.

I want to stress that these figures for fiscal 1966 are preliminary and that work is still going on to refine them. As you know, work on the budget for fiscal 1967 is still far from complete and consequently, we have no very good fix on expenditures, revenues, or deficit for the coming fiscal year.

In the price sector, some disturbing signs have appeared. This year, there is a greater tendency for price increases to outweigh declines than in any year since 1958. Industrial wholesale prices have risen by 1.3 percent in the twelve months ending this October after six years of comparative flatness. Consumer prices in October were 1.8 percent above a year ago, as compared with yearly increases averaging about 1.2 percent since 1958.

The situation calls for confidence in our private sector's capacity to match available supplies of men, materials, and productive margins with increasing demand, so that excessive pressures of demand on supply do not give rise to inflation. And it calls for action to do so. At the same time, we must recognize, both in the public and the private sector, that the margin for error is much smaller and the need for responsible restraint -- particularly restraint on wage and price increases -- is much greater; certainly until the conflict in Vietnam moves from the battlefield to the negotiating table and we no longer face its unpredictable consequences.

Some of the elements of responsible restraint in the period ahead for both Government and private industry seem clearly discernible:

Fiscal dividends from our economic growth in the form of tax cuts are, at least for the present, a casualty of the increasing requirements for the defense of freedom in Vietnam. These requirements have first claim on our anticipated revenue growth.

Responsible restraint in the period ahead also calls for a fiscal 1967 budget that will enable us to meet both our domestic objectives and our international commitments without fostering inflationary pressures. It calls for the kind of budget that President Johnson has given us in the past and is going to give us next year -- a budget that reflects both the most stringent kind of fiscal discipline and the most effective response to essential national needs.

A policy of responsible restraint also requires an all-out effort by Federal and local government and private business to intensify the attack on structural unemployment and the upgrading of manpower resources by accelerating job training and retraining and improving the organization of the labor market. Despite gratifying improvement, overall unemployment is still significantly above the levels that represent a realistic noninflationary target for our economy. Moreover, there are some categories -- particularly nonwhites and teenagers -- where rates of unemployment are clearly excessive by any standard.

Responsible restraint also calls for joint action by government and business to utilize and absorb in an orderly manner that will not disrupt normal markets the surplus of materials in government stockpiles which are determined to be no longer needed for mobilization requirements, particularly when shortages or intense pressures of demand on supply may be reasonably anticipated.

The need for responsible restraint in making private price and wage decisions consistent with the wage-price guideposts of the Council of Economic Advisers is particularly acute against the background of smaller margins of unutilized labor and production capacity and the special responsibility the situation in Vietnam places on every American. It is not in the private interest and it is contrary to the national interest to gamble with the future for the sake of immediate -- and, very possibly, temporary -- gain.

One of the most crucial elements in this entire expansion has been the relative stability of costs and prices -- a stability that has been fostered in no small degree by such government measures as the wage-price guideposts of the Council of Economic Advisers, the massive tax actions to encourage greater productivity through innovation and investment in new and more modern facilities, and the whole spectrum of efforts to reduce structural unemployment and increase our skilled manpower.

As a result -- while we cannot ignore recent disturbing developments -- the price record of the expanskon as a whole remains excellent. The wholesale price index today stands within 2 percent of its level at the beginning of the expansion --

while the index of consumer prices has risen at an average rate of only 1.3 percent a year. Reflecting moderate wage increases and good productivity gains, unit labor costs in manufacturing are today no higher than they were a year ago and lower than five years ago.

This record -- let me emphasize -- is reflected also in the relative stability of those prices that you in manufacturing, as well as industry generally, must pay for the materials you buy. In October -- the latest month for which we have figures -- wholesale prices for all industrials were only 1.6 percent higher than they were when the expansion began, and wholesale prices for total manufactures were only 2.1 percent higher.

Nothing, therefore, should be more obvious than the fact that -- in the private interest as well as in the national interest, in the interest of labor and of business as well as of the nation as a whole -- it is now more imperative than ever that both labor and business exercise responsible restraint in their wage and price decisions.

Today, above all, it is imperative that we not only preserve, but improve that working partnership between the private and public sector that has brought us so far. For let us never forget that that partnership is not merely an alliance for the efficient production of shirts and shoes and highways and schools and all the other products and by-products of material wealth and prosperity. It is also a partnership for the defense of freedom which alone makes prosperity worth having. It is a partnership that has proved itself time and again in the past when this nation has been pitted against aggression.

I know it will prove itself again today and in the long days and months ahead, prove itself more than equal to the challenges of sustaining our domestic economic expansion without inflation, reaching lasting equilibirium in our balance of payments and strengthening the Free World's economic and monetary system -- challenges that we must face while in Vietnam the grim struggle grinds on.

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CONCLUSION

Current developments in our international tax relationships underscore the wide range of policy and administrative issues that are under consideration. Indeed, the continued rapid growth in international investment and trade has brought with it a multitude of varied tax problems that severely strain and press beyond our present framework of concepts and analysis. Intensive legal and economic thought to develop that framework into one adequate to the task -- a framework that embodies a coherent logic capable of expansion to meet new patterns and relationships. In one sense this is a truly formidable task, since each of the countries of the world can claim a voice in the effort. But the ingenuity and insight promised by this host of architects should be viewed as welcome assets. The task for the United States is to see that in this international effort we play a role fitting to our position. We can do so if all of us with a stake in the outcome -- the Government and its officials, our taxpayers with international activities and their advisors, our universities and research institutions and their scholars -- work cooperatively in shaping our contribution.

progressive income tax rates as respects foreigners, it quickly restored them a year later, in part because some Americans had given up their citizenship to take advantage of the change. But to the extent possible we should not permit our tax problems with Americans to act as a bar to rational revisions in our treatment of foreigners. The proposed bill meets this objective by keeping American expatriates still subject to full United States tax on their United States income and assets, for five years after loss of citizenship in the case of the income tax and for ten years in the case of the estate tax, where the loss of citizenship is motivated by the desire to avoid our taxes. Where such a result is contrary, however, to a tax treaty, the treaty would govern. But since our tax treaties are largely with countries whose tax systems involve rates at significant levels, an expatriate who establishes residence in those countries is not likely to be motivated by a desire to avoid United States taxes.

requested by the United States, in a treaty negotiation for example, does not modify its taxes to parallel the changes we are making unilaterally. This power of the President can be applied on a selective basis, country by country and tax provision by tax provision, and need be applied only when he finds that it is in the public interest to do so in each case. Our treaty negotiators will thus be able to point out to a foreign country that our concessions are reversible, so that the negotiations can, in effect, proceed on a reciprocal basis.

Expatriates

The abandonment of the application of the progressive income tax rates to foreign individuals investing in the United States, the cut-back of other income tax provisions, and the reduction of estate tax rates would establish a distinctly brighter tax picutre in the United States for the foreigner. Indeed, the picture is such that Americans may be tempted to become "foreigners" for tax reasons. In 1936, when the United States had similarly abandoned its

their restrictions reciprocal. These concessions on our part have been matched by similar concessions granted by the treaty country on income our taxpayers derive from that country. A unilateral grant of these concessions on our part, by a statutory revision, might thus seriously affect our treaty bargaining strength and make it more difficult for us to secure similar treaty concessions in the future. At the same time, we desire to remove as quickly as possible any inappropriate tax barriers to the foreign investor now contained in our statutory system. Unilateral action can be prompt and cover all foreigners, while the treaty process takes time and operates country by country.

The bill neatly meets these difficulties by, first, providing prompt action and wide coverage through the unilateral act of a statutory revision, and, second, by retaining treaty bargaining power and flexibility through empowering the President to reinstate the former statutory rules. The President can do so, with respect to the residents of a foreign country, when he finds that the foreign country, if

property located in the United States. Thus, the bill would present the foreigner with a United States estate and gift tax structure vastly different from the present pattern, and one that should in a meaningful way remove barriers that the present pattern now imposes.

Relationship to Tax Treaties

The provisions of the bill provide distinct benefits to foreigners with United States income or assets as compared to present law through the changes that we would be making in our statutory provisions. These changes, at the same time, represent approaches which we think are appropriate in the treaty area as well. Thus, our recent protocol with Germany, and the tentative draft of the Netherlands protocol, reflect in a number of instances the changes in the bill, for example, with respect to the abandonment of the force of attraction and the cut-back in capital gains taxation. And in the past our treaties, in establishing reduced withholding rates for investment income, have thereby also abandoned application to that income of our progressive rates. But treaties are bilateral and

recommended by the Treasury). The new rate schedule would thus provide effective rates of 3 percent on a $100,000 estate, 7 percent for $500,000, 10 percent for $1,000,000, and 18 percent for $5,000,000.

The bill reshapes the definition of United States property to include bonds of a United States corporation and other debt obligations of a United States obligor, regardless of the physical location of the instruments, and also deposits in United States banks. It thus rounds out the present definitions into a consistent pattern.

As a consequence, the foreign investor would see a far lower scale of United States estate tax rates on his United States investment, and one that compares favorably with a number of foreign countries. Moreover, since many of the European countries grant their citizens, either by statute or treaty with the United States, a credit against their domestic estate tax for the United States tax on the United States estate, the new rates would be largely or entirely absorbed through these credits. As respects our gift tax, the bill wouldleave applicable to that tax only tangible

for $5,000,000, 43 percent. Such rates are among the highest in the world. Moreover, they are far above the rates we impose on our own citizens, a relationship that is just the reverse of that which generally prevails in other countries, or under our income tax provisions applicable to foreigners. It is thus clear why foreigners regard our estate tax as a real barrier to investment in the United States, and one that very often bars the investment or channels it into an investment made in foreign corporate form.

The bill recognizes the unreality of this existing rate structure. In seeking a lower and more realistic level, the bill uses as a standard the effective rates applied to our own citizens (under conditions where the estate of the United States decedent is eligible for the marital deduction, which permits property passing to a spouse to be untaxed up to one-half the total estate). The bill thus starts with an exemption of $30,000, in place of the present $2,000, and applies a 5 percent rate to the first $100,000 of taxable United States estate, rising to 10 percent thereafter up to $500,000 and then 15 percent up to $1 million. The top rate is 25 percent reached at $2,000,000 (higher than the 15 percent

taxed. These results are not altered by extensive trading in stocks or securities, even where the trading is conducted by a United States broker who has discretion to act for him. His real estate investments would be taxed on a net income basis at regular rates if that is preferable, and if his real estate investments are so active or so conducted as to constitute a trade or business on their own account, and consequently taxable in any event at regular rates, any other investments not connected with the real estate would still remain subject only to the usual withholding rates. This simpler, logical pattern would serve to remove income tax barriers which our present structure now presents to the foreign investor.

Estate and Gift Taxation

The United States now presents the foreign individual investor with extremely high rates of estate tax on his United States investments. The estate tax starts at the $2,000 level and the rates climb to 77 percent. For a $100,000 estate in the United States this means an effective rate of 17 percent; for $500,000, 26 percent; for $1,000,000, 29 percent; and

trade or business in the United States. This provision should serve to clarify uncertainties in present law which have confused potential foreign investors.

Finally, as respects the United States capital gains of foreign individual investors, the present unrealistic and complicated rules have been restated to tax such gains only if the foreigner is in the United States for 183 days or more during the year, and thus has a "presence" here comparable to that which would make him a "resident" under the tax laws of many foreign countries. Also, capital gains effectively connected with a trade or business are subject to tax. In the case of foreign corporations, this is the only situation in which its United States capital gains are taxable.

This drawing back of United States source jurisdiction to a more realistic and administratively manageable position would materially simplify the tax rules which we present to the foreigner desiring to invest in our stocks and securities or real property. As a general rule, his periodic income would be subject only to withholding taxes, either at 30 percent or a lower treaty rate, and his capital gains would not be

tax on the branch profits and the second dividend tax results in about the same tax burden that would exist if the foreign corporation had conducted its United States business through a United States subsidiary.

The bill in two specific types of investment revises present law to remove tax clouds over that investment. As to real estate investment, an individual foreigner (or corporation) is permitted to elect to treat the income from the investment as trade or business income. He thereby may receive the benefits of deductions connected with that income and is taxable on the resulting net income at business rates if that approach is preferable to taxation on the gross income at withholding rates. This provision eliminates many tax uncertainties that presently attend investment in real property in the United States. As to stocks and securities, the bill provides generally that a foreigner, individual or corporate, trading in those investments in person or through a resident agent, who may or may not have discretion to carry on investment activities, will not thereby be regarded as being engaged in

The bill simplifies this whole area by abandoning the application of progressive rates and limiting our assertion of tax, as respects investment income (not "effectively connected" with a trade or business), to the technique of withholding and to the level of withholding rates. The bill, in keeping with this approach, also exempts from personal holding company tax liability a foreign corporation whose stock is owned entirely by foreigners. Moreover, in the case of any foreign corporation receiving income from United States sources, it confines our assertion that dividends distributed by that corporation to its shareholders are in turn to be considered by us, in the shareholders' hands, as income from United States sources, to a situation where 80 percent or more of the gross income of the foreign corporation is effectively connected with the conduct of a trade or business in the United States. The tax on that portion of the dividends of the foreign corporation -- our so-called "second dividend" tax -- is thus confined to a case where the activities of the foreign corporation largely consist of operating a branch in the United States, so that the combination of our corporate

ownership of United States stocks or securities. Under existing rules foreign individual investors in the United States have been subject to progressive rates of tax on their United States income, when the total amount of that income involved a greater tax under the progressive rates than was collected through our withholding taxes. The investors in turn have sought to sidestep those rates through placing their investments in a foreign corporation and thereby obtaining either the 30 percent statutory withholding rate or lower treaty rates on the investment income. But they have had to be careful to structure the foreign corporation to avoid its being a personal holding company with respect to its United States source income. And of course some investors have simply sought to cover their tracks, recognizing the difficulties any tax administration faces when it moves beyond withholding taxes in its attempt to reach income going to foreigners. The consequence of all this was that the United States collected very little taxes under the progressive rates, so that the withholding rates were in practice the effective rates.

At the same time, by freeing the unrelated investment income from business tax rates, it leaves that income to be taxed at the rates we consider appropriate for investment income.

A number of our treaties provide for reduced withholding rates or exemption on investment income only if the foreign taxpayer has no permanent establishment in the United States. The adoption of the "effectively connected" approach, however, reflects a desire to permit application of those lower rates or exemption to all investment income which is not connected with a permanent establishment. We could achieve this result by a revision of each of our treaties to apply the lower rates or exemption despite the permanent establishment. However, this process would take a period of time. The bill eliminates this problem by unilaterally stating that these treaties will be applied to income not "effectively connected" as if the taxpayer did not have a permanent establishment in the United States.

Individual Investment

Most foreign individuals with interests in the United States are involved in investment activities, such as the

investment income to business taxation. Instead, as long as the investment income is not connected with the other activity, any uncertainty as to the status of the latter would not color or affect the investment income.

The bill implements the "effectively connected" concept by: (1) Making taxable any income so connected even though its source is not within the United States, such as where a branch located in the United States imports goods from abroad and then resells the goods outside the United States, with title passing outside the United States. The income from the sale, untaxed today by the United States and indeed often untaxed by any country, would be taxable under the bill. (Any income not so connected with the trade or business is taxed only if it is from sources within the United States under the usual source rules.) (2) In keeping with the above approach, providing a foreign tax credit, against the United States tax on the trade or business income, for foreign taxes paid on that income, if the foreign tax is levied on the basis of source jurisdiction by the other country.

In this manner the bill obtains for the United States its proper tax on the full income of the trade or business conducted there, and on any investment income effectively connected with it.

paralleled the force of attraction concept of the permanent establishment provision in tax treaties. The new bill confines this taxation at regular business income rates to the income "effectively connected with the conduct of the trade or business within the United States," leaving the other income of the foreigner from United States sources to be taxed at our 30 percent statutory withholding rate or lower treaty rates. The bill thus moves our treatment in this area over to the general approach followed by many other nations. It also is in accord with the OECD Model Income Tax Convention and our new treaty approach, evidenced in our protocols with Germany and the Netherlands, and thus has the advantage of conformity to international practice. The bill offers guidelines, to be supplemented by the legislative history, to the application of the "effectively connected" concept. A foreigner who is receiving large amounts of investment income from the United States, under the approach of the bill would no longer need be concerned that some other activity in the United States will suddenly be considered as giving him a trade or business status in the United States, and thus subjecting the

only on a desire to attract foreign investment, rules which would be but mere tax inducements or tax concessions. Indeed, the bill moves to correct certain instances where in the past our legislation was too favorable to foreigners when compared with the treatment of our own citizens.

The main provisions of the bill are here summarized:

Corporate Activity

Most foreign corporations that are involved in business activities in the United States generally operate through ownership of United States domestic subsidiaries or of significant stock interests in those corporations. The United States tax rules applicable are not complicated, and generally relate to our withholding taxes. This is equally so as to royalty situations. But where the foreign corporation operates here in branch form, the rules become more involved.

The existing statutory rules provide that a foreign corporation (or an individual) engaged in trade or business in the United States is taxed on all its income from United States sources at the regular rates applicable to business income, including not only the income from trade or business but also any unrelated investment income. The result

foreigners on the same income arising here. (5) The rules should not permit the United States to be turned into a tax haven country vis-a-vis foreign investors, nor be so framed as to permit, in combination with the tax rules of another country, the transformation of that country into a tax haven that would attract foreigners seeking to invest in the United States. (6) The rules should not be structured as to cause the capital of less developed countries, which are badly in need of the capital at home, to be drained off for investment in the United States. (7) Any benefits granted unilaterally by the United States should be so structured as to preserve a proper bargaining position for the United States in tax treaty negotiations.

The bill that has evolved from the consideration by the Committee on Ways and Means represents a balanced application of these principles. It recognizes that some of the existing provisions of our Code have become discriminatory and inequitable to foreign investors and thus a barrier to investment in the United States. In correcting this treatment the bill avoids at the other extreme rules that would represent

entitled the Foreign Investors Tax Act, contains the essential elements of the predecessor bill, but with certain modifications.

In my Montreal paper I discussed the principles which the Treasury Department considered applicable to the revision of this aspect of international tax relationships, and these may briefly be summarized: (1) The rules adopted should be in conformity with acceptable international norms. The United States, with its large flows of capital and goods in and out of the country, has a responsibility to take a major role in seeing that there is developed a proper international tax framework against which the tax system of any particular country can be considered. (2) The rules should permit a fair and sensible allocation among the various countries of the income from activities that reach across international borders. (3) The rules should assist in maintaining as far as possible the free international market of capital and goods, with taxes in any country as neutral a factor as possible consistent with the domestic policies to be served by a tax system. (4) A proper balance must be maintained between the taxes paid by our citizens on their United States income and those paid by

III. UNITED STATES STATUTORY TAXATION OF FOREIGNERS

The steady attention focused by the United States in recent years on its balance of payments position has resulted in an extensive examination of the United States tax treatment of foreigners who invest in the United States. This examination commenced with the report on April 27, 1964 of the Committee appointed by President Kennedy on Promoting Increased Foreign Investment in United States Corporate Securities and Increased Foreign Financing for United States Corporations Operating Abroad, which was chaired by the then Under Secretary, and now Secretary of the Treasury, Henry H. Fowler. The Treasury Department study of that Report, and of the entire statutory treatment of foreigners investing here, resulted in proposals to Congress embodied in H.R. 5916, introduced in March, 1965. The House Committee on Ways and Means then gave extensive consideration to that bill and in September, 1965 Chairman Mills, at the instruction of the Committ introduced a modified version of that bill for comment before the bill is reported to the House in 1966. The new bill, H.R. 11297,

of the corporate tax provisions can be achieved if the transaction in question involves a foreign corporation. Here also we are concerned with a provision of wide application necessary to prevent tax avoidance in the field of foreign income, for the taxpayer must satisfy the Commissioner that the proposed transaction -- such as the formation or liquidation of a foreign corporation -- does not have tax avoidance as one of its principal purposes. It would be helpful to taxpayers-- and administrators -- if detailed guidelines could be formulated setting forth objective standards to govern the application of that section. The Treasury is now engaged in the preparation of these guidelines and is hopeful of early action in this regard.

While this formulation of international rules is proceeding, we must remember that adjustments will be made under existing unilateral rules and many will be acceptable to both the countries concerned. However, as these cases tend to involve a considerable time before agreement is reached on the adjustment, a taxpayer and the countries concerned may find that procedural barriers, such as a statute of limitations on refunds, may make it impossible to implement the adjustment in the country that has overtaxed the income. To remedy this, the United States suggests that tax treaties contain provisions waiving these barriers and thus permitting the adjustment to be implemented. We are finding other countries receptive to this approach, and as observed in the discussion above under treaties, have already included such a provision in several treaties.

Section 367

There is another important aspect of our treatment of foreign income that requires an elaboration of the applicable administrative rules. This is Section 367 of our Code, which in effect requires the Commissioner's consent to be obtained by the taxpayer before the benefits available under a number

assistance to that Working Party, to lay before it our proposed Section 482 Regulations as they are developed. It is quite likely that these Regulation may represent a more structurally developed and detailed framework of allocation rules than has been formulated elsewhere, and hence may prove helpful as a starting point and as a way of focusing attention on a wide range of issues. We would, of course, welcome the analysis and discussion which we expect this would stimulate. We would be ready to make modifications in these proposed rules if such changes are seen to be appropriate as a result of this international discussion.

I may turn out that full international agreement on all the rules is not possible. We would then expect that the various Governments would consider what steps may be appropriate in dealing with the resulting conflicts and their double taxation effects. Various devices, which can be mentioned without an endorsement, have been suggested, such as arbitration, a payment once by the taxpayer at the higher of the two rates, or some formula to divide the burden among the taxpayer and the Governments.

those of other countries the result will be double taxation, the tax burden of which willbe borned either by one Government through the foreign tax credit or by the taxpayer, with the other Government obtaining an unwarranted benefit. (Far less likely, though possible, is undertaxation of the taxpayer.) Each country, of course, must see both sides of the allocation coin -- the rules which the United States regards as proper to allocate income to our parent companies from transactions with their foreign subsidiaries are the rules we must be willing to accept when the subsidiary is here and its parent is a foreign corporation. This factor should have an effect in tempering the international assertion of rigid positions, and thus make it easier to achieve international accommodation. For it is clear that this must be the ultimate goal, an internationally acceptable set of rational rules to govern the allocation of international income arising through these transactions.

The United States believes that the OECD Fiscal Committee is the proper body to undertake the task of establishing the allocation standards to guide countries in reaching accommodations with each other. The OECD Fiscal Committee appointed a Working Party for this purpose. We intend, as a measure of

requiring an allocation between domestic and foreign source income of expenses not allocable to specific items of gross income. When such expenses are allocated to gross income from sources outside the United States, the net amount of that income is decreased. This allocation of expenses is important largely for foreign tax credit purposes (the gross income and expenses are independently already taken into account in computing the taxpayer's domestic taxable income), because the allocation, by reducing foreign source income, can reduce a taxpayer's foreign tax credit. Clearly coordination with section 482 is necessary -- as a simple example, an expense of the parent for managerial services rendered to its foreign subsidiary and compensated for by a fee should be allocated to that fee and not to a dividend received from the subsidiary.

The Needed International Accommodation

All of the above relates to the proper formulation of our unilateral rules of allocation with respect to international transactions. But since they are international transactions, a unilateral approach by the United States, or any country, is not sufficient. For if our unilateral rules do not mesh with

products and transfers of intangibles, such as patent licenses. The problems here faced in seeking appropriate criteria or guidelines are much more difficult. The first set of Regulations involved transactions which could be governed either by cost standards or by establishing an appropriate charge for a fungible item, money. But the second set of Regulations involves the matter of determining a fair profit for assets that, under the arm's length rule, are regarded as transferred in a profit-seeking transaction. Nevertheless, we seek to establish as helpful a set of rules as is possible in this area. We have, in this context, in TIR 441 issued in 1963, established guidelines to govern transactions between Puerto Rican affiliates, who typically engage in manufacturing activities, and their United States mainland parents, who handle the distribution of the goods. This TIR has been quite helpful in facilitating the disposition of a large number of difficult cases. While it deals with a situation that has some unique aspects, it still provides us with some experience in approaching the proposed Regulations.

Finally, we are preparing Regulations to coordinate our section 482 Regulations with section 862 of the Code, a section

Arm's-Length Test -- The above rules are cast within the general framework of an arm's-length test, and do not turn on following the transactions through the books of the subsidiary to see whether it used in a profitable way the money lent, the assets made available, or the services rendered. The fact that the subsidiary is losing money does not therefore prevent these allocations. This is the essence of the arm's-length approach, and is in keeping with the fact that these are international transactions under which the United States is entitled to a fair reflection of the moneys, goods and services that are being transferred. It is also in keeping with the general deferral rules that are consequent upon treatment of the foreign subsidiary as a separate legal entity. It also is consistent with a proper approach to consolidated return accounting.

The second set of proposed Regulations, now in preparation, will contain the rules applicable to inter-company sales of

services, since the subsidiary could itself have employed the persons performing the service. While cost includes both direct and indirect costs and they are to be reflected on a full cost and not a marginal cost basis, the indirect costs may be allocated under any reasonable, consistent method in keeping with sound accounting practices.

Machinery and Tangible Assets -- Machinery and other tangible assets made available to a foreign subsidiary can be reimbursed on a cost basis, covering out-of-pocket costs, depreciation and a small profit representing an allowance for a return on the parent's investment. This cost allocation approach rather than that of establishing a rental figure is a method of reflecting on the income side what would otherwise generally be the required disallowance of deductions to the parent. It also eliminates the disputes that would arise under an approach seeking to establish a fair rentalvalue based on market rates.

intended to furnish a maximum of flexibility, and of course do not prevent the use by the taxpayer of other defensible approaches. For the most part they are based on the costs incurred by the parent and an allocation of those costs to the subsidiary in a manner that follows accepted accounting precedents. The following offer general illustrations. While the guidelines cover domestic as well as foreign transactions, their discussion here, and their main area of application, relate to the foreign area.

Loans -- Interest must be charged on a loan to a foreign affiliate: a 4 percent rate is acceptable; a lesser rate must be justified, and if it cannot be justified, the Service will apply a 5 percent rate.

Managerial and Other Services -- Managerial and other services rendered by the parent to benefit a foreign subsidiary must be compensated for, though a profit need not be charged by the parent. The amount of the compensation generally may be the cost to the parent of those

and to meet the requirements of outside interests. The vast majority of industrial companies in the United States make some allocation of general and administrative expenses to their various operations as a normal business practice. The requirements of government procurement contracting and of public utility regulation have necessitated allocations of expenses between the government contract work and the other operations and between the regulated and the non-regulated sectors. And, indeed, even in the tax field taxpayers have made allocations to their foreign branches to determine the foreign taxes they consider to be properly payable.

The first set of proposed Regulations, building in large part on this experience, was issued in April, 1965. In general, it covers the allocations required where assets or services of the parent are made available to the foreign subsidiary -- where money is lent, where management or other services are rendered or made available, where machinery and other tangible assets are made available. Essentially the approach is to provide guidelines which, if the taxpayer follows them, offer a safe-conduct pass through section 482. The guidelines are

taxpayer to accept the adjustment without increasing the transfer of income from subsidiary to parent more than it considers desirable. Again, as did Revenue Procedure 64-54, its flexibility makes possible -- and likewise demands -- a responsible approach to the guidelines governing the substantive reach of section 482.

Section 482 Substantive Guidelines

The above procedural steps have set the stage for the development of appropriate guidelines for the substantive application of section 482. The Treasury is approaching this part of the task through the issuance of detailed proposed Regulations under section 482, to replace the present Regulations which for the most part simply establish the standard of arm's length dealing. The assignment is a formidable one, but we must remember that the development of the guidelines does not start from an accounting vacuum. The tax minded, and especially the lawyers, tend to overlook the fact that their new tax problems have very often been faced for some time in contexts outside the tax field. Thus, accounting practices and conventions respecting allocations of income have had to be developed before this in non-tax fields, both for internal accounting purposes

of course, foreign taxes associated with the dividend are not allowed as credits. A taxpayer that did not receive a dividend in the year to which the adjustment relates (or did not elect to recast a dividend of that year) may, within 90 days after the adjustment is made, transfer an amount from the foreign subsidiary and have the transfer treated as the required payment and not as a dividend. Necessarily, the broad flexibility thus provided the taxpayer must be protected against abuse, or else section 482 would be deprived of any self-policing content. Hence the Revenue Procedure states that for years after 1963 this flexibility will not be available to taxpayers who cast their transactions in a manner which had avoidance of United States tax as a principal purpose.

This Revenue Procedure is thus an important step in permitting the section 482 adjustment to be fitted into a proper position within the flow of funds from the foreign subsidiary, a position that both removes impediments to the orderly repatriation of funds and makes it possible for a

considerations added an extra urgency to the questions. Taxpayers wishing to respond to the Government's stress on the desirability of repatriating foreign earnings were concerned about distributing dividends from their foreign subsidiaries if they also were to be faced by section 482 adjustments in the parent's income. They saw in the combination the possibility of having more income being taxed in the United States than they desired or was required by law.

To meet these questions, the Treasury in March, 1965 announced rules later embodied in Revenue Procedure 65-17, establishing an appropriate relationship between repatriations of income and section 482 adjustments. Under this Revenue Procedure a taxpayer will be permitted to recast dividend payments, for the year to which a section 482 adjustment relates, into the type of payment required to reflect the section 482 adjustment -- the dividend may thus become a payment to the parent for goods or services, thereby avoiding the enlargement of the parent's income that would occur if dividend and adjustment were kept separate. In this case,

Hence, the import of Revenue Procedure 64-54 for the future is to underscore the importance of the formulation of rational internal guidelines under section 482.

Repatriation of Income and Section 482 Adjustments -- Revenue Procedure 65-17

A section 482 adjustment in the foreign area usually means that a United States taxpayer has understated its United States income and overstated its foreign income -- goods have been sold by a United States parent at too low a price to its foreign subsidiary, services have been rendered by that parent at an inadequate fee, and so on. What are the rules that should govern the attempt to recast the accounts between the subsidiary and the parent: Suppose the subsidiary desires now to transfer the income that is said to be the parent's income -- will the transfer be a taxable dividend or handled instead as a payment on account of the section 482 adjustment? Suppose a dividend was included in the parent's income for the year to which the adjustment relates -- can the dividend be recast as a payment on account of the adjustment? These questions of course required answers so that the transactions could be fitted into their proper tax niche. But balance of payments

recognizes that a country cannot continue to administer such a section in this self-denying manner. For the continued allowance of the foreign tax offset would simply mean that the United States would be yielding control over its allocation problems to the allocation rules of foreign countries and the decisions of their administrators. Double taxation would be averted -- but the cost would be borne by the United States Treasury. While our foreign tax credit system recognizes that to prevent double taxation we are willing to yield first claim to the country of source, the integrity of that system depends on a rational framework of international allocation rules. The United States is thus entitled to insist on appropriate recognition of the rules it believes proper, and is not required to surrender its part in the construction of that framework. The same privilege of course belongs to any other country. The claims of the various countries may conflict and their failure to resolve them will lead to double taxation and increased burdens for the international taxpayer. But that is but another facet of the problem, to be discussed later, rather than a signal for us unilaterally to yield the field.

foreign subsidiaries, or the allocation of general and administrative expenses.

The effect of this step has been quite salutary. Through its achievement of an orderly treatment of the pre-1963 years and the consequent very marked reduction in number and dollar amount of deficiencies under the section for those years, it has permitted the needed technical development of the section to proceed in an atmosphere free of acrimonious disputes that would otherwise have existed. It has thereby enabled -- and indeed requires -- taxpayers and the Government to consider objectively and responsibly the shape of that technical development.

The confinement to pre-1963 years of the ability under the Revenue Procedure to offset foreign taxes against a United States adjustment is of basic importance. From the standpoint of internal fairness, this limitation mirrows the fact that taxpayers by the end of 1962 had generally become aware both of the possible reach of section 482 and of the Service's decision to apply the section in keeping with that reach. But, of more importance, the limitation

doubtful, at least in their view, that they could recoup the foreign taxes paid on the income involved in the adjustment -- as where on audit income was for section 482 purposes shifted from a foreign subsidiary to a United States parent. The double taxation that could result would thus generally make it imperative for the United States taxpayer to resist strongly any claimed adjustment, and the lines were being formed for prolonged and widespread controversy.

To prevent this, the Treasury, in December, 1964, issued Revenue Procedure 64-54, which allows taxpayers in the case of adjustments for years prior to 1963 to offset against any increase in United States taxes, occasioned by the adjustment, the foreign taxes paid on the income involved and thus to avoid double taxation. In addition, the Revenue Procedure states that the Revenue Service would not, except in certain limited instances, pursue for those years adjustments based on applications of section 482 that were not clearly required by its previous technical development, such as the requirement of interest on inter-company loans or royalties on patents licensed to

section had overstrained the level of technical development that had been achieved in its domestic application. The situation thus called for a many-faceted implementation of the section so that it may carry the new burden placed upon it. The following discussion catalogues the steps being taken to achieve that implementation.

Orderly Treatment of the Pre-1963 Years -- Revenue Procedure 64-

The first major step needed was an orderly treatment of the controversies that had arisen for the years prior to 1963. The recognition by the Internal Revenue Service in the late 1950's that section 482 had to be applied on a much wider basis in the foreign field brought a sudden surge of audits and controversies, since many taxpayers in their inter-company arrangements may not have fully considered the range or implications of that section. While some aspects of the section -- such as the requirement of an "arm's length price" on sales of products between related enterprise -- were recognized, other requirements had not been explicitly developed. As a consequence, many taxpayers for these years were faced with Internal Revenue Service adjustments increasing their United States income under circumstances which made it

orderly administration of United States tax rules affecting foreign income. These Regulations provide the guidance needed to translate foreign income statements into the "earnings and profits" of our tax laws.

Allocation of Income - Section 482

With this done, the Treasury has regarded as the next order of business the establishment of a satisfactory framework for the administration of the rules governing transactions between the domestic and the foreign units of our business concerns with foreign activities. In our tax parlance, this centers on the application of section 482 of our Code, authorizing the Commissioner to allocate income and credits between related units of an enterprise so as to prevent evasion or clearly reflect the income of the various units. While this section, whose presence and application are clearly necessary to a sound income tax system, had its original technical development in connection with transactions between domestic units of a United States enterprise, its recent importance is almost entirely in terms of its application to the foreign income field. The very variety and number of transactions in this field that lie within the reach of the

it holds for a growing network of tax treaties represent a major step in our political and economic relationships with these countries.

II. ADMINISTRATION OF UNITED STATES STATUTORY TAXATION OF FOREIGN INCOME

In the Montreal paper I stressed the importance of developing a sound administration of the United States statutory taxation of foreign income. This task is a formidable one: The field is relatively new as tax matters go, and the needed experience, analysis of detail, and synthesis of concepts are still in a formative stage; the international business activities to which the rules relate are rapidly expanding in importance and number, and the variety of transactions and business relationships involved thus steadily increases; the tax rules moreover are constantly being buffeted by the shifting exigencies of balance of payments problems. But all of this merely underscores the challenge of the task, and the Treasury is seeking to respond in a fitting manner.

As I stated in my Montreal paper, some matters have already been accomplished. The Regulations for the 1962 Revenue Act provisions regarding foreign income have been issued. Further, one these Regulations provides the tax accounting concepts essential

The Subcommittee of the Senate Committee on Foreign Relations has performed a useful public service in holding last August full hearings on the Thailand treaty. The published Hearings contain a complete technical explanation of these United States provisions, as well as a detailed analysis of the entire treaty and a description of factors affecting negotiations with less developed countries. They also contain the views of organizations representing United States concerns that invest abroad, and the views are favorable to these investment provisions and to the treaty itself. The only matter referred to as needing further consideration by the Treasury is that mentioned earlier in connection with the definition of permanent establishment.

Necessarily as experience is gained the present pattern described above that has so far evolved in our negotiations with the less developed countries can be improved. The progress of these negotiations is encouraging, for it indicates that the United States and these countries can reach a treaty arrangement that each regards as fair and conducive to improved investment, trade, and cultural relationships. This attitude and the promise

the United States transferor. Below this level of control our tax would apply. Moreover, there is frequently a tax in the other country as well, even in the case of 80 percent control. The treaty provision deferring these taxes until the stock is sold removes an impediment to the transaction, and is of minor effect on the United States revenues, since a foreign tax that would be incurred in the absence of the provision would generally be creditable against the United States tax.

Finally, as a step in simplifying the process of contributions to charitable organizations in these countries, a provision may be inserted, as in the Philippine and Thailand treaties but not Israel, to permit a deduction against United States tax of contributions made directly to such organizations. Under our statute the deduction could be obtained if made indirectly through a United States organization. The treaty provision requires that the foreign organization must meet the standards established in each country for a charitable organization. It may be observed that our Internal Revenue Service has experience in passing on the charitable character of foreign organizations as a result of its administration of the rule under our statutory law that a foreign organization which meets our test of "charitable" is not subject to any tax on income it receives from the United States.

The treaty process also permits complementary modifications where appropriate in the tax laws of the other country which are conducive to improved international trade. Where the other country is not yet ready to make certain modifications, or is more concerned with continuing a somewhat restrictive approach to foreign investors, then the investment credit need not be extended. While it may well be that in most of these cases a treaty may presently not be negotiable, this need not always be the result, as the Philippine treaty indicates. That treaty does not contain an extension of the investment credit.

The investment credit applies to investments of cash and tangible property. The Israel and Thailand treaties, and the Indian draft, also contain a complementary provision that seeks to offer encouragement for the investment of technical assistance. Here the approach is that of a deferral of both our tax and that of the less developed country on any gain that would otherwise be recognized when intangible assets, such as patents, processes or know-how, are exchanged by a United States investor for stock in a corporation of the less developed country. Under our statutory law this deferral would, where "property" is involved, be possible if 80 percent control is obtained by

The United States in these negotiations is quite clear on its view that extension of the investment credit is appropriate only where the other country is receptive to our investment and where its tax system, taken as a whole, does not involve measures that can be regarded as significantly working at cross purposes with this investment. In many cases the existing tax systems of less developed countries do not meet this standard. But the treaty process itself permits the foreign country to modify its tax system through the treaty and thus deal with the provisions of its tax law which act as disincentives to investment from the United States. For example, the existence of a complex of corporate taxes and withholding taxes on dividends in a less developed country, which brings the effective rate of tax on profits earned there above the general level of the United States corporate tax, creates a tax barrier to our investment in such countries. It would generally be difficult to justify a tax credit for United States investment in such a country unless that country is prepared to reduce its taxes to the level prevailing in the United States. This often can be done by a treaty but not otherwise, since that country may not be prepared to reduce its taxes on its own nationals or those of third countries.

assumpations as to the time pattern of distributions, discount rates, and the like. And many countries recognize the advantages enumerated above, both to the investor and the less developed country, of the credit approach over the tax sparing approach.

In this light the extension of the 7 percent credit by treaty is the negotiating tool which permits the United States to achieve tax treaties with less developed countries which both we and they can regard as fair and balanced. The importance of this provision thus basically lies not in the benefits it extends to investors, but rather in what it thereby obtains for the United States -- a sound treaty system with the less developed countries with all the advantages such a system provides -- for both parties to the treaty -- for improved investment, trade, and cultural relationships between the United States and these countries.

As a consequence, the provision is incorporated in the Thailand and Israel treaties and in the India draft. Its technical provisions,as expressed in the Israel draft, are of course subject to improvement as experience is gained. Moreover, the provision can be terminated after five years without a termination of the entire treaty.

on the receipt of income in the United States from the foreign investment, as do tax sparing and tax exemption, it does not encourage quick repatriation of profits. Since the credit does not turn on foreign tax concessions, as does tax sparing, it does not have the capriciousness of that device and its capacity to encourage "concession competition" among less developed countries, nor does it transfer from the United States to a foreign country the decision as to whether a tax benefit is to be conferred and, if so, the extent of such benefit. Since the extension of the investment credit to less developed countries would but follow the treatment accorded domestic investment, it does not involve the treaty process in favoring the foreign investor as against the domestic investor in a matter closely linked to the rates of tax, as did tax sparing.

The less developed countries so far have responded favorably to our suggestion that extension of the 7 percent investment credit is a recognition of their desire for an encouragement of capital inflows. We have been able to demonstrate, moreover, that the monetary benefits to the investor from this credit are generally equivalent in amount to what it would receive from a tax sparing approach, given reasonable

respect to the encouragement of capital inflows. I would, so far as the United States is concerned, remove an impediment to investment in less developed countries and thereby in this respect establish a general parity of treatment between domestic investment and investment in the less developed country In establishing this parity and thus assisting investment in these countries, we would also be pursuing a policy reflected in other tax legislation recently adopted by Congress. Thus, the Revenue Act of 1962, which was directed to "tax-haven" or "base companies" abroad, contains a number of provisions favorable to investment in less developed countries as compared with industrialized nations. Moreover, under the interest equalization tax, loans made to enterprises in less developed countries and investments therein are treated in the same way as domestic loans and investments and thus are exempt from the tax.

Moreover, the investment credit approach is far more appropriately suited to less developed countries than the tax sparing approach or the exemption of income approach, from the standpoint of equity, efficiency, and administration. Since the investment credit operates on the act of investment, it eases the risk of investment at the very outset. Since the credit does not turn

economic activities. A tax sparing credit would equally be undesirable since it would operate capriciously, providing the largest tax benefits to our investors in less developed countries having the highest nominal tax rates and without any necessary relationship to the fundamental economic needs of a country or to such policies as the "Alliance for Progress." Moreover, such a credit would stimulate the rapid repatriation of profits from less developed countries rather than the reinvestment of profits in those countries.

Clearly we need some provision comparable in purpose if the United States are to obtain treaties with less developed countries. As a consequence the United States has offered to extend by treaty to these countries the 7 percent credit that now exists in the Internal Revenue Code for investment in the United States. Since in the Code this credit does not extend to investment abroad, its adoption established in effect a preference for domestic investment as compared with foreign investment. Consequently, the extension of the 7 percent investment credit by treaty to these countries offers itself as a fitting approach to the recognition those countries seek with

exemption by the industrialized country of various forms of income received by its taxpayers from activities in the less developed country. Another approach is the so-called "tax sparing credit". In treaties incorporating such a provision, the capital exporting country agrees to allow a credit against its tax, not only for the taxes actually paid to the less developed country, but also for the taxes that would have been paid to the less developed country if that country had not reduced its income taxes under some special tax concession scheme. There appear to be some 20 "tax sparing" treaties in force between industrialized countries and the less developed countries.

In our view these approaches are undesirable. Thus, tax exemption of income derived from investment in less developed countries would be viewed as a highly inequitable provision by American taxpayers engaged in business in the United States and would have a highly erratic effect on the relative tax burden of foreign producers as compared with those engaged in domestic production. It would be basically inconsistent with the principle of the foreign tax credit which seeks to maintain neutrality in tax burdens as between domestic and foreign

business and cultural visitors, and ships and aircraft are overwhelmingly from developed countries to less developed countries. Perhaps the only exception is that of students and trainees. This does not mean that the treaty provisions are wrong or unfair in concept, but simply reflects the economic relationships on which these international tax standards are being superimposed. Yet all of this understandably presents problems to the less developed countries -- problem of revenue loss, of negotiation, and of justification to their peoples.

Under these circumstances these countries have sought some concession from the developed countries. This search, in the light of their desire for additional investment from abroad, has centered around treaty provisions that they regard as offering encouragement to this foreign investment.

As a consequence, the other industrialized countries entering into tax treaties with less developed countries -- and there appear to be over 30 of these treaties -- have found it necessary to incorporate a provision which the less developed countries consider a stimulus to capital inflows in order to obtain a treaty with them. One approach followed involves

Other Substantive Provisions

These treaties generally contain the other standard substantive provisions, such as those affecting teachers, students and trainees (but with more emphasis on their part on this aspect and perhaps with more liberal exemptions at source being sought), government personnel, and pensions and annuities.

Procedural Provisions

These treaties also contain the customary procedural provisions, such as consultation, exchanges of taxpayer information and legal information, and taxpayer claims. The Israel treaty and the Indian draft include the removal of procedural barriers to the effectuation of agreements on the allocation of profits and the source of items of income.

Provisions on the United States Side -- Investment Credit, Technical Assistance and Charitable Contributions

The treaty pattern described above represents significant accommodations by the less developed countries to the international standards that have evolved in treaties between developed countries, but do not in turn represent any real concessions on the part of the developed countries. The flows of investment income -- dividends, interest, royalties -- and of export trade

In all of these situations -- dividends, interest, and royalties -- these countries are not basically concerned about our 30 percent withholding rate since they do not receive investment flows from the United States. As a matter of treaty reciprocity, however, they ask for provisions that match their concessions.

Ships and Aircraft

These countries, paralleling developed country treaties, consent to reciprocal exemption for air and ship transportation, though sometimes the latter will receive only a reduction to 50 percent of the otherwise applicable tax rather than complete exemption.

Temporary Visitors

These countries, here also paralleling to a considerable extent developed country treaties, consent to exempt temporary business visitors from their taxes. The standards will differ somewhat, but usually involve a limited period of time, such as 183 days, and a limitation on the amount earned, sometimes applied on a daily basis in the case of entertainers and other performers.

not in the case of the Philippines in part because its effective rate exceeded 48 percent.

It should be recognized that in their treaties with other developed countries, the above countries adopt largely similar approaches as respects their withholding rates.

Interest

These countries appear even more hesitant about reducing withholding rates on interest. They are willing to do so if the lender on our side is a Government agency, where exemption is granted, and in the case of Israel if it is a bank, where a 15 percent rate is used. But otherwise they appear so far to put revenue maintenance ahead of even possible reduction in interest costs to their debtors where the foreign lender is passing on the withholding tax to the borrowers.

Royalties

The royalty area presents a mixed approach. Some countries as Israel and Thailand, reduced their withholding rates to 15 percent. Others are not desirous of taking this step, but are willing to permit royalties (and rents) to be taxed electively on a net income basis.

tax and a 30 percent withholding tax for an effective rate of 51 percent on dividends going abroad (in the absence of a domestic incentive provision). When all profits net of corporate tax are distributed this produces an excess credit of 8.4 percent. Thailand reduced its withholding rate from a maximum of 25 percent to 20 percent, with a corporate tax rate of 25 percent (in the absence of an incentive provision), giving an effective rate of 40 percent -- the prior rate was 43-3/4 percent, which resulted in an excess credit of about 1 percent for a corporate shareholder. Israel retained its 25 percent withholding rate. Israel imposes a corporate profits tax of 28 percent plus a tax of 25 percent on corporate net income after profits tax less any dividends distributed (in the absence of an incentive provision). Dividends distributed are thus subject to the corporate profits tax of 28 percent and a withholding tax of 25 percent, leaving an effective rate of 46 percent, below our 48 percent rate but resulting in an excess credit in the absence of gross up of about 3.6 percent. As will be discussed below, the United States applied certain investment provisions on its part, such as extension of our 7 percent investment credit in the Thailand, Israel and Indian cases, but

exclusively or almost exclusively for the foreign taxpayer. Aspects of this approach are a cause of concern to some United States taxpayers who have been securing orders for their goods through a subsidiary formed in the other country. As a consequence, we will carefully explore with these countries ways of meeting this situation which do not upset these parent-subsidiary exporting arrangements or other appropriate arrangements.

Dividends

Some of these countries are hesitant to reduce their withholding rates on dividends, fearing a loss of revenue. Where relevant they point out that extensive incentive provisions of their laws often eliminate or materially lessen the corporate tax rate, so that the effective rate of total tax is well below 48 percent. The United States, where relevant, calls attention to the desirability of reducing over-all effective rates to 48 percent, and even lower where not grossing-up the foreign dividend produces an excess foreign tax credit. The foreign reaction differs. The Philippines were not ready to make any reduction in withholding rates on investment income, leaving that country with a 30 percent internal corporation

meeting the problem caused by the absence of, or incomplete, source rules in the statutory provisions of these countries.

Non-Discrimination

The OECD Convention respecting non-discrimination of foreign nationals residing in the country, permanent establishments, and domestic corporations owned by nationals is being followed.

Permanent Establishment and Industrial Profits

The OECD approach is generally followed in the definition of permanent establishment and on the treatment of industrial and commercial profits, with a few exceptions. One is that the force of attraction approach is still being applied, as perhaps simpler of administration, though the desirability of continuing to use this approach is an open question. Another is that some countries (not Israel) desire specifically to treat as a permanent establishment an agent who regularly secures orders in the country for the foreign taxpayer or maintains a stock of goods from which delivery is regularly made. If such an agent is an independent agent, however, he will not constitute a permanent establishment. These countries may desire to specify that an agent is not independent who acts

The three recent treaties, with the Philippines, Thailand, and Israel, largely exhibit that pattern, with the Israel treaty evidencing the arrangement and, in general, the technical drafting which we regard as desirable.

The following is a summary of the developing pattern:

Arrangement and Drafting

These treaties, while influenced by the OECD Draft, are not likely to be as closely tied to that draft in wording or arrangement. The treaty with Israel, for example, follows an entirely different arrangement of the treaty provisions, and one which we believe is more manageable.

Relief from Double Taxation

The countries so far have followed a credit approach to relieve double taxation, as does the United States. We may not see therefore as much resort to the exemption approach, or the combined exemption-credit approach, that we see on the part of our treaty partners in our developed country treaties.

Source of Income

The treaties generally contain a description of source rules for various items of income, following international standards. In some cases this treaty approach is a way of

Indeed, we are likely to overlook the fact that this process of treaty extension has given us a set of treaties with a number of less developed countries which have achieved independence.[1/]

We also have treaties with Honduras and Pakistan -- as well as the three pending in the Senate -- to complete the present list of our treaties with independent less developed countries.

These treaties in one sense are in an evolutionary period, especially since for many of the countries involved the very negotiation of tax treaties involves a new activity. Moreover, many of these countries are negotiating against a background of evolving internal laws, as their tax policies change and as technical improvements are made under the pressure of modern commercial relationships and transactions. Nevertheless, a certain pattern is being achieved in these treaties, which we are seeking to utilize as we extend the range of our negotiations

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1/ Cyprus, Jamaica, Malawi, Nigeria, Sierra Leone, Trinidad and Tobago, and Zambia (United Kingdom treaty extension); Burundi, Congo (Dem. Rep. of), and Ruanda (Belgium treaty extension); also Netherland Antilles (Netherlands treaty extension).

in the same goal. We are not alone in recognizing these values, for many of the other developed countries are engaged in considerable efforts to achieve a network of treaties with the less developed countries, and indeed are succeeding. This in turn behooves us to keep to the task, lest we lose the advantage which others find in this very useful device for ordering some of the relationships between the developed and less developed worlds.

Fortunately, our efforts to achieve a proper set of treaties are succeeding. We have negotiated treaties with the Philippines Thailand, and Israel, in that order, and these are before the Senate. We have agreed on a draft with India, and are engaged in completing negotiations commenced earlier with Taiwan. We are informally discussing with several Latin American countries the appropriateness of negotiations. Also, existing treaties are being revised; thus we are considering with Honduras, whose treaty was the first we negotiated with a less developed country, appropriate modifications of that treaty. As another illustration, we are engaged in negotiations with Trinidad and Tobago to explore revisions in a treaty which has its origin in the extension of our United Kingdom treaty to that country on its independe

Uniformity and clarity never stand as impassable barriers to compromise solutions. If they did, we would have the uniformity of no treaties. Nor should uniformity with the past block improvements that are now seen to be desirable.

All of this is not said to disparage the goal of uniformity and the United States seeks to achieve it as far as possible. But in practice we know we will fall short. An offsetting step is to clarify the disuniformity -- to state through Regulations or in other ways when and to what extent different words, different phrases and different approaches in various treaties, or even the same treaty, really embody differences in end result and are so intended. Despite delays that have occurred, we therefore are working on Regulations that would maintain order among the variations. Whether this can be done within the framework of a master set of treaty Regulations or whether some other device is more useful remains to be seen, but the end we seek seems clearly necessary.

Less Developed Countries

In my Montreal paper I described at length the interests of the United States in achieving treaty relationships with less developed countries, and the interests of those countries

Other countries appear to agree with this view, and clauses to this effect are being incorporated in our treaties, as in the German and the Netherlands protocols and the Israel treaty. It has also been agreed with Belgium that the language of our existing Belgian treaty has a similar effect. We regard this result as a significant step toward the goal of achieving a proper framework to meet the problems of international allocation.

Drafting and Interpretation

Those who read and apply treaties -- as well as all persons with orderly minds and habits -- earnestly urge uniformity in the drafting of tax treaties. And all treaty negotiators will fully agree in principle. However, each negotiator usually has his mind set on his own pattern of a uniform and orderly treaty. And there is no negotiator who will place uniformity above agreement when the hour is late and a seemingly intractable problem yields to a welcome solution that departs "just a bit" from the words in other treaties and may "possibly" have some ambiguities which the negotiators feel any reasonable men will later be able to resolve if the cases actually arise -- just as the negotiators have so successfully resolved their problem!

It is recognized that it will take time to evolve agreed upon standards. But the United States believes that through treaties we should now ensure that any agreements that are reached between governments and taxpayers in particular cases, under present standards or those that will be formulated, should be capable of being implemented in full. As matters now stand, however, procedural and other barriers may prevent this. Thus, since disputes of this nature often take considerable time to resolve in particular cases, an agreement may be reached calling for a reduction in the tax previously paid to one of the countries only for the parties to find that the statute of limitations has run on the filing of a refund claim or the payment of the refund. Such a procedural barrier would result in international double taxation. To avoid impediments of this nature, the United States believes that treaties should provide that an agreement once reached shall be fully implemented, and a refund allowed in accordance with the agreement, despite such procedural or other barriers. Such agreements could relate either to the allocation of profits or to the source of an item of income. In the latter case the implementation should extend to the consequent effect of the agreed source on a foreign tax credit.

the exhortation to the Contracting Parties to resolve any such situation if well founded; and the desirability of consultation between the Contracting Parties to settle interpretative and other questions. In addition, any excess of "interest" or "royalty" payments over a fair and reasonable consideration is not regarded as covered by the interest and royalty articles, but the excess instead is taxed in a manner appropriate to the situation, which presumably will usually be as a dividend.

The United States seeks to follow these provisions in its treaties, since they represent a necessary technical framework. But we feel that the day-to-day problems of international allocation cut deeper and will require further substantive rules if a proper international framework is to be achieved. The main need, simply stated but very difficult in execution, is to achieve standards and criteria furnishing guidance on what are appropriate allocations in the great variety of cases that arise -- the payment of interest on inter-company loans, the payment of royalties on inter-company licenses, the fixing of prices on inter-company sales, the reimbursement of expenses incurred for inter-company services, and so on. This matter is discussed further in connection with our statutory rules.

for the "withheld tax", will discriminate against the shareholder investors from abroad if the benefits of that credit are not extended to the latter. The non-discrimination clause in the OECD Draft can be regarded as implying that the task of avoiding discrimination in this context falls on the country of source. The possible methods of achieving this result would of course have to be explored. And the effect of any such step on the investment relationships in the other country, i.e., the relationship between its taxpayers who invest at home and those who invest abroad (and thus become the "shareholder investors from abroad" in the first context) must be kept in mind. These also are matters not fully discussed in the OECD Convention and thus require further attention.

Allocations of Income

The OECD Convention continues the conventional clauses regarding allocation of income: the allowance of appropriate deductions to a permanent establishment of all expenses connected with it wherever incurred; the arm's length standard of allocation between related persons, such as a parent-subsidiary relationship; the entitlement of a taxpayer to present to his Government a case of alleged action contrary to the treaty and

Non-Discrimination

Another facet of international neutrality lies in the comparison of the treatment between domestic taxpayers and the taxpayer from abroad. The older version of tax treaties generally sought non-discrimination between the domestic taxpayer and the foreign national residing in the country, and sometimes extended the coverage to a permanent establishment. The OECD Convention, in the interests of a wider neutrality, further extends this non-discrimination to domestic corporations of a country owned by nationals of the other country. The United States believes the OECD approach is desirable, and it is contained for example in the Netherlands protocol. Generally, it would appear that the inclusion or application of this clause should not involve serious policy differences, and neutrality of this type should be achievable.

The effect of the varying corporate-shareholder tax pattern described above on neutrality between domestic investors and investors from abroad may, however, be in need of further analysis. For example, a corporate tax system under which part or all of the corporate tax is regarded as a withholding tax on the shareholders, so that the shareholders are allowed a credit

One other matter requiring further exploration is that of the so-called "round trip dividend". If a parent in country A receives a dividend from its subsidiary in country B, there will usually be a withholding tax paid to country B on that dividend. If residents of country B own stock in the parent, then on payment of a dividend to them by the parent, there will be a withholding tax by country A. One can ask whether, as a consequence, this "round trip" is too heavily taxed. Of course the parent's dividends to country B are not dollar for dollar traceable to the dividends it received from its subsidiary in that country. But still some amounts have taken a "round trip". Further, there are at present very few corporate parents in the world where such flows from and to a country would be of a size in which the amounts of both flows were significant. And the technical patterns and the pitfalls of possible solutions are not readily apparent. Still, since the "round trips" are likely to increase in number and significance, the problem should commend itself to the tax experts for study.

tax structure. There may be reasons, such as those associated with a balance of payments posture, to depart temporarily from time to time either to favor investment at home in the case of a deficit country, or to encourage investment abroad in the case of a surplus country. But even here the temporary swings could be made more appropriately through devices -- such as the interest equalization tax in the United States or foreign exchange measures abroad -- not associated with the basic income tax structure lest they become embedded in that structure and resistant to change when the temporary need has passed. The presence of investment incentives, such as investment credits or allowances or rapid depreciation, may also impart an unneutrality through being limited to domestic investment. As far as possible, however, the achievement of neutrality between investment at home and investment abroad should be a part of the basic structural design of a country's tax system. But it also would seem appropriate to use the treaty medium to achieve the alteration in unilateral statutory treatment necessary to reach this neutrality. Since the OECD Convention does not really deal with this aspect, it is an area where further exploration is needed.

to occur where a country adopts a corporate-shareholder tax relationship under which a credit is given to domestic shareholders for part or all of the corporate tax on domestic corporations. If a comparable credit is not extended by the country to its domestic shareholders who invest in foreign corporations, then the tax system will embody an unneutrality favoring investment at home. The United Kingdom, when it used an integrated corporate tax with a grossed-up shareholder credit, avoided this unneutrality by allowing its shareholders by treaty a credit for a foreign underlying corporate tax. Its treaty partners sometimes reciprocated, as in the case of the United States - United Kingdom treaty where the United States gave its shareholders in United Kingdom corporations a credit for underlying United Kingdom corporate tax. But such reciprocity would not appear to be a necessary ingredient, since it in turn may inject an unneutrality between the reciprocating country's investors at home and its investors abroad.

It would seem that an appropriate goal in international tax relationships is the achievement as far as possible of a basic neutrality in tax effect between investment at home and investment abroad. This neutrality should be a long-range aim of a

rate to 25 percent in such a situation. The Belgian protocol achieves reciprocal rates of 15 percent on registered shares, thus reducing the otherwise applicable Belgian 18.2 percent effective rate, while allowing a period of time to explore the administrative problems of applying the 15 percent rate to bearer shares and taking recognition of the fact that in actual practice the rate on the bearer shares typically held by American investors rarely exceeds 15 percent.

The concepts enumerated above will meet satisfactorily many of the varying situations presented under the influences earlier mentioned. But it is quite possible that further concepts are needed to achieve a freer flow of international investment and proper international tax treatment. Some corporate tax structures result in an unneutral tax effect between those of a country's taxpayers who invest abroad and those who invest at home. This unneutrality may not always be initially intended in the structural design, but rather may represent the way the pieces fitted together in the end. More often it will be a consequence of a structural design chosen for internal reasons but a consequence that becomes a policy of steps are not taken to prevent the unneutrality from persisting. This is most like

We prefer a definition of the parent-subsidiary relationship that uses a 25 percent stock ownership test, but which would permit that degree of ownership to be met either by a single parent company or by several corporate shareholders in combination. Also, adequate attention must be paid to prevent the reduced dividend rates, as well as reduced rates on interest and royalties, from flowing to nonresidents of a treaty country, since we do not desire to encourage the tax-haven form for the holding of interests in the United States. (Our treaty with Luxembourg and the Netherlands Antilles protocol reflect this approach.

The recent protocols concluded with Belgium, Germany and the Netherlands are in keeping with these concepts. The first two adopt a 15 percent rate, reflecting the desire of those countries that the withholding rate be 15 percent for both portfolio and parent-subsidiary investment; the Netherlands protocol has the OECD rates of 15 percent and 5 percent. The German protocol provides the protection needed by a country using a lower rate for distributed profits against a dividend distribution followed by immediate reinvestment, where the latter route is advantageous tax wise, by raising the German

The United States' basic position regarding the dividend provision is, to a considerable degree, reflected in its recent treaty activities. We stand ready to offer any country the OECD recommended rates of 15 percent on portfolio investment and 5 percent on parent-subsidiary investment. Some other countries chose, however, for a variety of reasons, not to adopt the 5 percent rate on parent-subsidiary investment so that as a consequence some of our treaties will, as a reflection of treaty negotiations, contain rates of 10 percent or 15 percent for that investment. But, since the United States offers the OECD rate of 5 percent to all, the variations in our treaties this reflect the unwillingness of other countries to adopt that 5 percent rate. We believe, however, that countries should seek to present a uniform approach to all their treaty partners, and thus as far as possible fix on a set of rates that they will offer to all comers rather than seek to differentiate one country from another. In addition, the rates of withholding tax that are adopted should be reciprocal, in that a country should not be able to claim higher treaty rates than the rates it desires us to adopt in the treaty. The other country is free of course to prefer rates lower than those which it seeks of us

may vary: it may be of the gross-up variety, and therefore accurately reflecting the part of the corporate tax treated as withholding tax (the former United Kingdom tax, the Belgian tax, and the new French tax); it may or may not involve refunds to taxpayers who otherwise cannot use the full credit; it may or may not extend to foreigners; it may not involve a gross-up credit but only be a flat percentage of dividends received (the Canadian tax). And a country which treats part of its corporate tax as a withholding tax may also have as a collection device a supplementary withholding tax on dividends similar to its other internal withholding taxes. In addition, in some countries bearer instruments may predominate and thus restrict to some extent the degree to which certain tax approaches can be effectively implemented.

These differences in revenue significance, in corporate-shareholder tax structure, in the differing policy goals and attitudes respecting the encouragement of private savings and investment that they reflect, and in the prevalence of the bearer or registered share form of corporate shareholdings all combine to shape a country's approach to the treaty provision governing dividends. Given all this, one cannot expect uniformity in this area.

A parent-subsidiary relationship requires a stock ownership by the parent of 25 percent of the stock of the subsidiary. But the treatment of dividends is one of the treaty provisions, perhaps the principal one, that is generally the subject of real differences of opinion and hard bargaining between treaty countries. Since dividends usually represent the main item in the income flows between countries, the revenue importance of the withholding taxes on dividends is usually significant, and certainly more so than for the other items. Also, one country may find that its portfolio investment abroad is more significant that its direct investment, whereas the opposite could be the case for the other treaty country. Moreover, the rates of the underlying corporate tax will vary from country to country. Further, the form of the underlying corporate tax also will vary: some countries may have a straight corporate tax (the United States and the new United Kingdom taxes); others a tax that provides a lower rate to the corporation for distributed profits (the German tax); others a tax all or part of which is regarded as a withholding tax on the shareholders so that the latter receive a corresponding credit against their individual income tax on their dividends. The form of this credit in turn

approach is based on the desirability of a free movement of capital and the difficulties of effectively taxing capital gains in the source country in an orderly way. Consequently, the German and Netherland protocols provide generally for the exemption at source of capital gains. The German protocol excepts from exemption short-term gains, on assets held for six months or less, where the taxpayer has resided in the source country for 183 days or more. This exception in the case of a taxpayer with an extended presence, i.e., 183 days, in the source country is likely to appear in our various treaties. A stay of that length seems to warrant a tax liability to the source country, especially where the gains are speculative in nature as in the case of assets held for a short period of time. Moreover, in many country, such a stay will make a taxpayer a "resident", and hence subject to tax on capital gains. This "183 day" exception may take variant forms, as our experience develops and the attitudes of other countries are formed.

Treatment of Dividends

The OECD Draft recommends, as appropriate international withholding rates on dividends, 5 percent on parent-subsidiary dividends and 15 percent on dividends on portfolio investment.

investment activities in a separate subsidiary solely designed for this purpose. For these reasons the approach has been adopted by the United States in the German and Netherlands protocols. Of course any new concept and its terminology carry their interpretative problems at the edges of the concept, and this will be true of such phrases as "effectively connected" and "attributable to", just as it has been true of other phrases and concepts in the treaties. Nor can we here expect full uniformity of treaty terminology, as the combination of emerging experience and negotiating preferences will produce some variations. We hope through Regulations, however, to offer guidance as the questions emerge and to place any language variations in their proper perspective.

Capital Gains

The OECD Draft Convention, largely following European practice, restricts the taxation of capital gains to the country of residence, except as to gains on real property and assets effectively connected with a permanent establishment. While this approach is at variance with some of our prior treaties, it often has been followed by us in the past. Moreover, the

permanent establishment, and taxed at the rates and in the manner applicable to business enterprises. This meant, for example, that investment income which would otherwise have been taxed under the treaty at relatively low withholding rates or fully exempt, remained subject to tax at regular rates. The OECD draft abandons this force of attraction approach and therefore leaves the investment income of a taxpayer having a permanent establishment to be separately treated except where the asset giving rise to that income is "effectively connected" with the permanent establishment. Also, only the industrial or commercial profits "attributable to" a permanent establishment are to be subject to tax, and any industrial or commercial profits not so attributable are, lacking the relationship to a permanent establishment, exempt from tax under this approach.

This approach has much to commend it, since the separation it permits between trading or other business activity and investment activity makes for a freer movement of capital and goods between countries. The approach also makes unnecessary the steps taxpayers have taken, recognizing the utility of that separation, to achieve it through isolating the business or

permanent establishments, or branch operations, are relatively quite few in number, or are generally confined to certain lines of activity, such as insurance, banking, and natural resource activities. Thus, as respects the permanent establishments of foreigners in the United States, there were less than 500 foreign corporations actively engaged in business in the United States in 1962, of which almost half reported a loss on their United States business operations. The total amount of income reported by the profit-making branches was less than $100,000,000, of which over 75 percent was attributable to 58 insurance companies and 14 investment companies. If the deficit companies are taken into account and the insurance companies excluded from the calculations, the total taxable income of the 375 other branches is less than $7 million. This figure, however, reflects allowance of the 85 percent dividends received deduction, without which it might be considerably higher.

Force of Attraction

Our previous treaty pattern, once a permanent establishment existed in a country, was to provide that all income of the taxpayer arising in that country was "attracted" to that

specifically to a "place of management" as a permanent establishment. Though this concept was not separately delineated before, it was in effect recognized as a factor under some prior treaties, as in the case of the German treaty. But since it may be a relatively unfamiliar term in our tax lexicon, the United States is taking appropriate steps, through memoranda of understanding, exchanges of letters and the like, together with its own Regulations, to emphasize that the term refers to "management" in a substantive and meaningful sense and not to minor, representational or sporadic activities. More care is also being given in the treaties to the definition of "industrial and commercial profits" (the kind of income for which the presence of a permanent establishment is requisite to its taxation), with the result of greater particularity in the enumeration of types of income not covered by the phrase.

Given, on the one hand, the scope of operations thus afforded to a business activity before it is regarded as constituting a permanent establishment and, on the other, the tax and non-tax factors that point to the use of a foreign subsidiary as operations become still more extensive, it seems likely that

pattern embodied in it is appropriate for the United States.

It therefore may be helpful to turn to the more significant aspects of that pattern. As will be seen later in the discussion of our unilateral treatment of foreigners, this pattern is also important in the shaping of our statutory rules.

Definition of Permanent Establishment

The definition of permanent establishment set forth in the OECD Draft is clearly becoming the model for the various treaties. The member countries have recognized that, while subject to some technical deficiencies or ambiguities, the definition is satisfactory over-all. They therefore have adopted it, improving on it as the definitional problems emerge. The provision set forth in the German protocol is the form the United States is currently using. This provision is more particularized than the previous form, and somewhat more permissive in the operations that can be conducted by a business activity before it will be regarded as having a permanent establishment. It may be observed that this definition refers

issues that confront treaty negotiators. But new issues constantly emerge, and old issues take different shapes, so that in some areas the guidance offered by the Convention seems inadequate. Perhaps the principal areas in this respect relate first, to the rates of dividend withholding appropriate to the varying forms of domestic corporate income taxation that are being adopted by the member countries, and second, to the policy and technical problems that are emerging with respect to the allocation of profits between the components of international business enterprises.

As for the United States, the recent protocol with Germany and that to be signed soon with the Netherlands illustrate a significant part of the pattern which the revision of our treaties is taking. The German protocol was recently ratified by the Senate, and this action, together with the nature of the testimony at the hearing held on it, indicates that the

Income Tax Convention. The United States recently concluded protocols with Belgium and Germany, and will shortly sign a protocol with the Netherlands. It is currently engaged in negotiations with France looking to a revision of the existing treaty, which goes back to 1939, [illegible] and with the United Kingdom to meet the problems created by the extensive changes enacted this year in the United Kingdom tax law.

The effect of the OECD Model Convention on these treaty negotiations is significant. While there are differences in degree among the various member countries in the extent of their adherence to the language of that Convention, and indeed these differences vary from provision to provision, that Convention is always kept in mind by treaty negotiators. This is, of course, understandable, since the representation in the OECD Fiscal Committee which drafted the Convention is composed of the officials charged with the responsibility to negotiate tax treaties for their respective countries. And indeed for many purposes, that Convention meets satisfactorily the policy and technical

I. INCOME TAX TREATIES

The United States is continuing to maintain an active schedule of treaty negotiations, along with its participation in the deliberations of the OECD Fiscal Committee. The treaty negotiations cover a variety of issues, and extend both to developed and less developed countries.

Developed Countries

The United States now has a full complement of income tax treaties with the European Common Market countries, and indeed with most of the developed countries. Spain and Portugal remain as the principal exceptions, and arrangements for negotiations with these countries are underway.

But the treaty process in the tax field is an ever changing one, so that we and our treaty partners of the developed world find ourselves engaged in a wide-ranging revision of the existing arrangements. The principal factors behind this re-examination have been the recent changes in the corporate tax systems of the European countries and the adoption in 1963 by the OECD of a Model

it a multitude of varied tax problems that press beyond our present framework of concepts and analysis. Intensive legal and economic thought is required to develop that framework into one adequate to the task -- a framework that embodies a coherent logic capable of expansion to meet new patterns and relationships. In one sense this is a truly formidable task, since each of the countries of the world can claim a voice in the effort. But the ingenuity and insight promised by this host of architects should be viewed as welcome assets. The task for the United States is to see that in this international effort we play a role fitting to our position. We can do so if all of us with a stake in the outcome -- the Government and its officials, our taxpayers with international activities and their advisors, our universities and research institutions and their scholars -- work cooperatively in shaping our contribution.

The approach of the bill closely parallels the pattern now taken in our tax treaty negotiations. The bill, however, would extend these steps to all foreigners promptly and on a unilateral basis. But to preserve the bargaining power and flexibility our negotiators need to obtain through treaties reciprocal concessions from other countries on income our taxpayers derive from abroad, the bill empowers the President to reinstate the former statutory rules. The President can do so with respect to residents of a foreign country when he finds that the foreign country, if requested by the United States, does not modify its taxes to parallel the changes we are making unilaterally. This power of the President can be applied on a selective basis, country by country and tax provision by tax provision, and need be applied only when he finds that it is in the public interest to do so in each case.

Conclusion

Current developments in our international tax relationships underscore the wide range of policy and administrative issues that are under consideration. Indeed, the continued rapid growth in international investment and trade has brought with

$100,000 United States estate, 7 percent for $500,000, 10 percent for $1,000,000, and 18 percent for $5,000,000. The corporate investor -- or an individual -- with a business activity in the United States would find itself taxed at regular rates on any business income and any investment income "effectively connected" with that activity, whether the source of the income is within or without the United States. The United States would thus obtain its proper tax on this type of income. But any unrelated investment income would be freed from business tax rates and taxed, where its souce is in the United States, only at the withholding rates we consider appropriate for investment income. A foreign corporation whose stock is owned entirely for foreigners would no longer be subject to personal holding company tax liability. And our "second dividend' tax would only apply to a foreign corporation whose activity is almost solely confined to operating a branch in the United States. These simpler and more logical rules, applied to individual and corporate foreign investors, should in a meaningful way remove tax barriers which our present structure now presents.

The bill would, in effect, draw back United States source jurisdiction, both under the income tax and the estate and gift taxes, to a more realistic and administratively manageable position. It would also simplify the tax rules we present to the foreigner desiring to invest here. As a consequence, in general the individual foreigner investing in our stocks and securities or real property would find his periodic income from the investment subject only to tax at withholding rates, either at 30 percent or a lower treaty rate, and not to progressive rates. His capital gains would not be taxed. These results would not be altered by extensive trading in these stocks or securities, even where the trading is conducted by a United States broker who has discretion to act for him. His real estate investments would be taxed on a net income basis at regular rates if that is preferable. The foreign investor would also see a far lower scale of United States estate tax rates on his United States investments. The exemption would start at $30,000 instead of $2,000 as at present, and the top rate would be 25 percent instead of 77 percent. The effective rates would thus be drastically reduced, and would only be 3 percent on a

and clauses for this purpose are being incorporated in our treaties, as in the German protocol. We regard this result as a significant step toward the goal of achieving a proper framework to meet the problems of international allocation.

United States Statutory Taxation of Foreigners

The steady attention focused by the United States in recent years on its balance of payments position has resulted in an extensive examination of the United States tax treatment of foreigners who invest in the United States. Against the background of the "Fowler Task Force" Report to the President and Treasury recommendations, the House Committee on Ways and Means has developed a bill, H. R. 11297, now available for comment before being reported to the House in 1966. The bill recognizes that some of the existing provisions of our Code have become discriminatory and inequitable to foreign investors and thus involve a barrier to investment in the United States. In correcting this treatment the bill avoids at the other extreme rules that would represent only a desire to attract foreign investment, rules which would be but mere tax inducements or tax concessions.

the task of establishing the allocation standards to guide countries in reaching accomodations with each other, and we are fully assisting the Working Party which that Committee appointed for this purpose.

Another aspect of the problem is to ensure that any agreements reached between Governments in particular cases, under present standards or those to be formulated, should be capable of being implemented in full. However, as these cases generally involve a considerable time before agreement is reached on the adjustment, a taxpayer and the countries concerned may find that procedural barriers, such as a statute of limitations on refunds, may make it impossible to implement the adjustment in the country that has overtaxed the income. To avoid this result, the United States believes that treaties should provide that a refund be allowed in accordance with the agreement, despite procedural or other barriers. Such agreements could relate either to the allocation of profits or to the source of an item of income, and in the latter case the implementation should extend to the effect of the agreed source on a foreign tax credit. Other countries appear to agree with this view,

of intangibles, such as patent licenses. These rules will involve the determination of a fair profit for an endless variety of assets that, under the arm's length concept of section 482, are regarded as transferred in a profit-seeking transaction. Both these Regulations must then be coordinated with the rules of section 862, requiring an allocation between domestic and foreign source income of expenses not allocable to specific items of gross income.

These Regulations relate to the proper formulation of our unilateral rules of allocation with respect to international transactions. But since these are international transactions a unilateral approach by the United States, or any country, is not sufficient. The rules of one country must mesh with those of other countries to avoid double taxation. Also, each country must see both sides of the problem -- the rules we regard as proper to allocate income to our parent companies from transactions with their foreign subsidiaries are the rules we must be willing to accept when the subsidiary is here and its parent is a foreign corporation. The United States believes that the OECD Fiscal Committee is the proper body to undertake

position within the flow of funds from the foreign subsidiary and its dividend pattern. This removes impediments to the orderly repatriation of funds from the subsidiary and makes it possible for the taxpayer to accept the adjustment without increasing the transfer of income from subsidiary to parent more than it considers desirable.

These procedural steps set the stage for the development of appropriate guidelines for the substantive application of section 482. To this end the Treasury has already issued detailed proposed Regulations covering transactions where assets or services of a United States parent are made available to its foreign subsidiary -- where money is lent, where management or other services are rendered, where machinery and other tangible assets are made available. Essentially the approach is to offer taxpayers a safe conduct pass through section 482 through guidelines, based on the costs incurred by the parent and an allocation of those costs to the subsidiary in a manner that follows accepted accounting precedents outside the tax field. The second set of proposed Regulations, now in preparation and far more difficult to develop, will contain the rules applicable to inter-company sales of products and transfer

allocating additional income to the United States unit of the enterprise -- the foreign taxes paid on the income involved and thus to avoid double taxation. In addition, the Revenue Procedure stated that the Internal Revenue Service would not pursue for those years adjustments based on applications of section 482 not clearly required by its previous technical development. Through its achievement of an orderly treatment of the pre-1963 years and the consequent very marked reduction in number and dollar amount of deficiencies under the section for those years, this Revenue Procedure has permitted the needed technical development of the section to proceed in an atmosphere free of acrimonious disputes that would otherwise have existed.

The second step, in Revenue Procedure 65-17, provides rules governing the transfer of income between foreign subsidiary and United States parent intended to reflect an adjustment correcting an understatement of the parent's income, as where it charged too low a price for goods sold to the subsidiary or rendered services to it for an inadquate fee. The principal impact of these rules is to permit broad flexibility in fitting the section 482 adjustment into a proper

The Treasury regards as the matter presently having major priority the establishment of a satisfactory framework for the administration of the rules governing transactions between the domestic and foreign units of our business companies. In our tax parlance, this centers on the application of section 482 of our Code, authorizing the Commissioner to allocate income, deductions and credits between related units of an enterprise so as to prevent evasion or clearly reflect the income of the various units. The variety and number of transactions in the foreign area that lie within the reach of the section have overstrained the level of technical development that had been achieved in the earlier domestic application of the section. The situation thus calls for a many-faceted implementation of the section so that it may carry the new burden placed on it.

Several steps have already been taken. The first, in Revenue Procedure 64-54, achieved an orderly treatment of controversies that had arisen for years prior to 1963 by permitting taxpayers to offset -- against any increase in United States taxes occasioned by an adjustment under this section

that the United States and these countries can reach a treaty arrangement that each regards as fair and conducive to improved investment, trade, and cultural relationships. This attitude and the promise it holds for a growing network of tax treaties represent a major step in our political and economic relationships with these countries.

Administration of United States Statutory Taxation of Foreign Income -- Allocation of Income and Section 482

The importance of developing a sound administration of the United States statutory taxation of foreign income is matched by the formidable nature of the task: The field is relatively new as tax matters go, and the needed experience, analysis of detail, and synthesis of concepts are still in a formative stage; the international business activities to which the rules relate are rapidly expanding in importance and number, and thus the variety of transactions and business relationships involved steadily increases; the tax rules moreover are constantly being buffeted by the shifting exigencies of balance of payments problems. But all of this merely underscores the challenge of the task, and the Treasury is seeking to respond in a fitting manner.

encouragement to the investment of technical assistance, through deferring tax in both countries where intangible assets, such as patents, processes or know-how, are exchanged by a United States investor for stock in a corporation in the less developed country. We believe that extension of the investment credit is appropriate only where the other country is receptive to our investment and where its tax system, taken as a whole and in the light of any modifications made in the treaty, does not involve measures that can be regarded as significantly working at cross purposes with this investment. This negotiating approach on our part has met with an affirmative response by the less developed countries.

The Subcommittee of the Senate Committee on Foreign Relations has performed a useful public service in holding full hearings on one of these new treaties, the Thailand treaty. The published Hearings contain a complete technical explanation of the treaty and a description of factors affecting negotiations with less developed countries. Necessarily, as experience is gained, the present pattern that has so far evolved in our negotiations with less developed countries can be improved. The progress of these negotiations is encouraging, for it indicates

royalties in these treaties do not always match those in the developed country treaties. There also is pressure to widen the definition of permanent establishment and thus contract the area of trading activities free from tax in these countries. In addition, since the restrictions on taxation by the source country that do emerge in these treaties bear in a revenue sense more heavily on the less developed countries, such countries seek some provisions on the part of the developed countries that can be regarded as an encouragement to investment in them.

The European nations have responded through provisions reducing the burden of their taxes on income flowing back from these investments, either through an exemption or adoption of tax-sparing credits. The United States, emphasizing instead the encouragement to the investment itself at the time that it is being considered by the United States taxpayer, is responding through extending to investment in less developed treaty countries the 7 percent credit now in our law for investment at home. This 7 percent treaty credit extends to investments of cash and tangible property. A complementary provision offers

from substantive differences. There is therefore clearly a need to clarify the disuniformity -- to state through Regulations or otherwise when and to what extent different phrases and different approaches in various treaties, or even the same treaty, really embody differences in end result and are so intended. The United States intends to improve its Regulations in response to this need.

The United States is also engaged in an extensive program of negotiations to obtain a network of treaties with less developed countries. We believe that such treaties significantly improve the trade, investment and cultural relationships between the United States and these countries. Many of the European nations are also engaged in similar efforts. While these new less developed country treaties in many provisions follow those with developed countries, there are quite significant differences arising from the fact that the investment and trade flows from the United States to these countries is generally much larger than the reverse flows. As a consequence, and also in the light of the revenue problems of these countries, the reductions in withholding rates on investment income and

These concepts cover ground that has been considerably explored in recent years. But the new corporate tax systems present problems less fully mapped. Some of these systems involve integration of the corporate tax with the individual shareholders' taxes on distributed dividends, through credits to these shareholders for the corporate tax. Their structure, by limiting those credits to domestic shareholders in domestic corporations, discriminates against both their domestic shareholders who invest abroad and the shareholders from abroad who invest in their domestic corporations. The OECD Convention does not fully meet these problems, and therefore an analytic framework for their solution is needed. Such a framework should be rested, as far as possible, on two basic concepts: first, the concept of long-range neutrality in a country's tax system between those of its investors who invest at home and those who invest abroad; and second, the concept of non-discrimination in a country's tax system between its investors at home and investors from abroad.

These treaties, under the pressure of negotiating problems and inevitable differences among countries and negotiators, will not always exhibit uniformity in phrasing and arrangement, apart

United States and Europe. The scope of export activities in a treaty country can now be enlarged, for instance, by displays and warehouses for the storage or delivery of goods, without subjecting the exporter to a tax in that country. Also, in cases where a firm maintains considerable commercial or industrial activity in a treaty country and therefore is taxable there on that activity at regular corporate rates, it can at the same time make investments in that country, or establish licensing relationships, that will remain subject to the lower rates of tax which treaties provide for investment and royalty income. Investors, moreover, will generally be free from tax on capital gains arising in a treaty country. In the important matter of withholding rates on dividends paid to parent companies in one treaty country by their subsidiaries in another treaty country, the United States is in favor of the low OECD Model rate of 5 percent, and likewise favors the 15 percent rate on portfolio investment. It also favors the principles that the withholding rates should be non-discriminatory -- in that a country should be willing to offer the same rates to all its treaty partners -- and reciprocal -- in that a country should not claim higher treaty rates than the rates it desires us to adopt in the treaty.

A consideration of these current developments is now appropriate. I shall divide this consideration into three parts -- income tax treaties, both with developed and less developed countries, the administration of United States statutory or unilateral treatment of foreign income, and United States statutory or unilateral treatment of foreigners. Because of the length of this paper I have prepared a summary, which precedes the paper.

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TREASURY DEPARTMENT
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These treaties, under the pressure of negotiating problems and inevitable differences among countries and negotiators, will not always exhibit uniformity in phrasing and arrangement, apart from substantive differences. There is therefore clearly a need to clarify the disuniformity -- to state through Regulations or otherwise when and to what extent different phrases and different approaches in various treaties, or even the same treaty, really embody differences in end result and are so intended. The United States intends to improve its Regulations in response to this need.

The United States is also engaged in an extensive program of negotiations to obtain a network of treaties with less developed countries. We believe that such treaties significantly improve the trade, investment and cultural relationships between the United States and these countries. Many of the European nations are also engaged in similar efforts. While these new less developed country treaties in many provisions follow those with developed countries, there are quite significant differences arising from the fact that the investment and trade flows from the United States to these countries is generally much larger than the reverse flows. As a consequence, and also in the light of the revenue problems of these countries, the reductions in withholding rates on investment income and royalties in these treaties do not always match those in the developed country treaties. There also is pressure to widen the definition of permanent establishment and thus contract the area of trading activities free from tax in these countries. In addition, since the restrictions on taxation by the source country that do emerge in these treaties bear in a revenue sense more heavily on the less developed countries, such countries seek some provisions on the part of the developed countries that can be regarded as an encouragement to investment in them.

The European nations have responded through provisions reducing the burden of their taxes on income flowing back from these investments, either through an exemption or adoption of tax-sparing credits. The United States, emphasizing instead the encouragement to the investment itself at the time that it is being considered by the United States taxpayer, is responding through extending to investment in less developed treaty countries the 7 percent credit now in our law for investment at home. This 7 percent treaty credit extends to investments of cash and tangible property. A complementary provision offers encouragement to the investment of technical assistance, through deferring tax in both countries where intangible assets, such as patents, processes or know-how, are exchanged by a United States investor for stock in a corporation in the less developed country. We believe that extension of the investment credit is appropriate only where the other country is receptive to our investment and where its tax system, taken as a whole and in the light of any modifications made in the treaty, does not involve measures that can be regarded as significantly working at cross purposes with this investment. This negotiating approach on our part has met with an affirmative response by the less developed countries.

The Subcommittee of the Senate Committee on Foreign Relations has performed a useful public service in holding full hearings on one of these new treaties, the Thailand treaty. The published Hearings contain a complete technical explanation of the treaty and a description of factors affecting negotiations with less developed countries. Necessarily, as experience is gained, the present pattern that has so far evolved in our negotiations with less developed countries can be improved. The progress of these negotiations is encouraging, for it indicates that the United States and these countries can reach a treaty arrangement that each regards as fair and conducive to improved investment, trade, and cultural relationships. This attitude and the promise it holds for a growing network of tax treaties represent a major step in our poltical and economic relationships with these countries.

Administration of United States Statutory Taxation of Foreign Income -- Allocation of Income and Section 482

The importance of developing a sound administration of the United States statutory taxation of foreign income is matched

the formidable nature of the task: The field is relatively
w as tax matters go, and the needed experience, analysis of
tail, and synthesis of concepts are still in a formative
age; the international business activities to which the rules
late are rapidly expanding in importance and number, and
us the variety of transactions and business relationships
volved steadily increases; the tax rules moreover are
nstantly being buffeted by the shifting exigencies of balance
payments problems. But all of this merely underscores the
allenge of the task, and the Treasury is seeking to respond
a fitting manner.

The Treasury regards as the matter presently having
jor priority the establishment of a satisfactory framework
r the administration of the rules governing transactions
tween the domestic and foreign units of our business
mpanies. In our tax parlance, this centers on the
plication of section 482 of our Code, authorizing the
mmissioner to allocate income, deductions and credits between
lated units of an enterprise so as to prevent evasion or clearly
flect the income of the various units. The variety and
mber of transactions in the foreign area that lie within the
ach of the section have overstrained the level of technical
velopment that had been achieved in the earlier domestic
plication of the section. The situation thus calls for a
ny-faceted implementation of the section so that it may carry
e new burden placed on it.

Several steps have already been taken. The first, in
enue Procedure 64-54, achieved an orderly treatment of
troversies that had arisen for years prior to 1963 by
mitting taxpayers to offset -- against any increase in
ted States taxes occasioned by an adjustment under this section
ocating additional income to the United States unit of the
erprise -- the foreign taxes paid on the income involved
thus to avoid double taxation. In addition, the Revenue
cedure stated that the Internal Revenue Service would not
sue for those years adjustments based on applications of
tion 482 not clearly required by its previous technical
elopment. Through its achievement of an orderly treatment
the pre-1963 years and the consequent very marked reduction
number and dollar amount of deficiencies under the section
those years, this Revenue Procedure has permitted the
ded technical development of the section to proceed in an
osphere free of acrimonious disputes that would otherwise
e existed.

The second step, in Revenue Procedure 65-17, provides rules governing the transfer of income between foreign subsidiary and United States parent intended to reflect an adjustment correcting an understatement of the parent's income, as where it charged too low a price for goods sold to the subsidiary or rendered services to it for an inadequate fee. The principal impact of these rules is to permit broad flexibility in fitting the section 482 adjustment into a proper position within the flow of funds from the foreign subsidiary and its dividend pattern. This removes impediments to the orderly repatriation of funds from the subsidiary and makes it possible for the taxpayer to accept the adjustment without increasing the transfer of income from subsidiary to parent more than it considers desirable.

These procedural steps set the stage for the development of appropriate guidelines for the substantive application of section 482. To this end the Treasury has already issued detailed proposed Regulations covering transactions where assets or services of a United States parent are made available to its foreign subsidiary -- where money is lent, where management or other services are rendered, where machinery and other tangible assets are made available. Essentially the approach is to offer taxpayers a safe conduct pass through section 482 through guidelines, based on the costs incurred by the parent and an allocation of those costs to the subsidiary in a manner that follows accepted accounting precedents outside the tax field. The second set of proposed Regulations, now in preparation and far more difficult to develop, will contain the rules applicable to inter-company sales of products and transfers of intangibles, such as patent licenses. These rules will involve the determination of a fair profit for an endless variety of assets that, under the arm's length concept of section 482, are regarded as transferred in a profit-seeking transaction. Both these Regulations must then be coordinated with the rules of section 862, requiring an allocation between domestic and foreign source income of expenses not allocable to specific items of gross income.

These Regulations relate to the proper formulation of our nilateral rules of allocation with respect to international ransactions. But since these are international transactions unilateral approach by the United States, or any country, is ot sufficient. The rules of one country must mesh with those f other countries to avoid double taxation. Also, each ountry must see both sides of the problem -- the rules we egard as proper to allocate income to our parent companies rom transactions with their foreign subsidiaries are the rules e must be willing to accept when the subsidiary is here and its arent is a foreign corporation. The United States believes that he OECD Fiscal Committee is the proper body to undertake the task f establishing the allocation standards to guide countries in eaching accomodations with each other, and we are fully assisting he Working Party which that Committee appointed for this purpose.

Another aspect of the problem is to ensure that any agreements eached between Governments in particular cases, under present tandards or those to be formulated, should be capable of being nplemented in full. However, as these cases generally involve a onsiderable time before agreement is reached on the adjustment, a axpayer and the countries concerned may find that procedural barriers, ich as a statute of limitations on refunds, may make it impossible) implement the adjustment in the country that has overtaxed the icome. To avoid this result, the United States believes that :eaties should provide that a refund be allowed in accordance th the agreement, despite procedural or other barriers. Such ;reements could relate either to the allocation of profits or to ie source of an item of income, and in the latter case the iplementation should extend to the effect of the agreed source a foreign tax credit. Other countries appear to agree with this ew, and clauses for this purpose are being incorporated in our eaties, as in the German protocol. We regard this result as a gnificant step toward the goal of achieving a proper framework meet the problems of international allocation.

ited States Statutory Taxation of Foreigners

The steady attention focused by the United States in recent irs on its balance of payments position has resulted in an :ensive examination of the United States tax treatment of :eigners who invest in the United States. Against the background the "Fowler Task Force" Report to the President and Treasury :ommendations, the House Committee on Ways and Means has developed ›ill, H. R. 11297, now available for comment before being reported the House in 1966. The bill recognizes that some of the

existing provisions of our Code have become discriminatory and inequitable to foreign investors and thus involve a barrier to investment in the United States. In correcting this treatment the bill avoids at the other extreme rules that would represent only a desire to attract foreign investment, rules which would be but mere tax inducements to tax concessions.

The bill would, in effect, draw back United States source jurisdiction, both under the income tax and the estate and gift taxes, to a more realistic and administratively manageable position. It would also simplify the tax rules we present to the foreigner desiring to invest here. As a consequence, in general the individu foreigner investing in our stocks and securities or real property would find his periodic income from the investment subject only to tax at withholding rates, either at 30 percent or a lower treaty rate, and not to progressive rates. His capital gains would not be taxed. These results would not be altered by extensive trading in these stocks or securities, even where the trading is conducted by a United States broker who has discretion to act for him. His real estate investments would be taxed on a net income basis at regular rates if that is preferable. The foreign investor would also see a far lower scale of United States estate tax rates on his United States investments. The exemption would start at $30,000 instead of $2,000 as at present, and the top rate would be 25 percent instead of 77 percent. The effective rates would thus be drastically reduced, and would only be 3 percent on a $100,000 United States estate, 7 percent for $500,000, 10 percent for $1,000,000, and 18 percent for $5,000,000. The corporate investor -- or an individual -- with a business activity in the United States would find itself taxed at regular rates on any business income and any investment income "effectively connected" with that activity, whether the source of the income is within or without the United States. The United States would thus obtain its proper tax on this type of income. But any unrelated investment income would be freed from business tax rates and taxed, where its source is in the United States, only at the withholding rates we consider appropriate for investment income. A foreign corporation whose stock is owned entirely for foreigners would no longer be subject to personal holding company tax liability. And our "second dividend" tax would only apply to a foreign corporation whose activity is almost solely confined to operating a branch in the United States. These simpler and more logical rules applied to individual and corporate foreign investors, should in a meaningful way remove tax barriers which our present structure now presents.

The approach of the bill closely parallels the pattern now taken in our tax treaty negotiations. The bill, however, would extend these steps to all foreigners promptly and on a unilateral basis. But to preserve the bargaining power and flexibility our negotiators need to obtain through treaties reciprocal concessions from other countries on income our taxpayers derive from abroad, the bill empowers the President to reinstate the former statutory rules. The President can do so with respect to residents of a foreign country when he finds that the foreign country, if requested by the United States, does not modify its taxes to parallel the changes we are making unilaterally. This power of the President can be applied on a selective basis, country by country and tax provision by tax provision, and need be applied only when he finds that it is in the public interest to do so in each case.

Conclusion

Current developments in our international tax relationships underscore the wide range of policy and administrative issues that are under consideration. Indeed, the continued rapid growth in international investment and trade has brought with it a multitude of varied tax problems that press beyond our present framework of concepts and analysis. Intensive legal and economic thought is required to develop that framework into one adequate to the task -- framework that embodies a coherent logic capable of expansion o meet new patterns and relationships. In one sense this is a ruly formidable task, since each of the countries of the world can laim a voice in the effort. But the ingenuity and insight romised by this host of architects should be viewed as welcome ssets. The task for the United States is to see that in this nternational effort we play a role fitting to our position. We can o so if all of us with a stake in the outcome -- the Government nd its officials, our taxpayers with international activities and heir advisors, our universities and research institutions and heir scholars -- work cooperatively in shaping our contribution.

I. INCOME TAX TREATIES

The United States is continuing to maintain an active schedule f treaty negotiations, along with its participation in the eliberations of the OECD Fiscal Committee. The treaty negotiations over a variety of issues, and extend both to developed and less eveloped countries.

Developed Countries

The United States now has a full complement of income tax reaties with the European Common Market countries, and indeed ith most of the developed countries. Spain and Portugal remain

as the principal exceptions, and arrangements for negotiations with these countries are underway.

But the treaty process in the tax field is an ever changing one, so that we and our treaty partners of the developed world find ourselves engaged in a wide-ranging revision of the existing arrangements. The principal factors behind this re-examination have been the recent changes in the corporate tax systems of the European countries and the adoption in 1963 by the OECD of a Model Income Tax Convention. The United States recently concluded protocols with Belgium and Germany, and will shortly sign a protocol with the Netherlands. It is currently engaged in negotiations with France looking to a revision of the existing treaty, which goes back to 1939, and with the United Kingdom to meet the problems created by the extensive changes enacted this year in the United Kingdom tax law.

The effect of the OECD Model Convention on these treaty negotiations is significant. While there are differences in degree among the various member countries in the extent of their adherence to the language of that Convention, and indeed these differences vary from provision to provision, that Convention is always kept in mind by treaty negotiators. This is, of course, understandable, since the representation in the OECD Fiscal Committee which drafted the Convention is composed of the officials charged with the responsibility to negotiate tax treaties for their respective countries. And indeed for many purposes, that Convention meets satisfactorily the policy and technical issues that confront treaty negotiators. But new issues constantly emerge, and old issues take different shapes, so that in some areas the guidance offered by the Convention seems inadequate. Perhaps the principal areas in this respect relate first, to the rates of dividend withholding appropriate to the varying forms of domestic corporate income taxation that are being adopted by the member countries, and second, to the policy and technical problems that are emerging with respect to the allocation of profits between the components of international business enterprises.

As for the United States, the recent protocol with Germany and that to be signed soon with the Netherlands illustrate a significant part of the pattern which the revision of our treaties is taking. The German protocol was recently ratified by the Senate, and this action, together with the nature of the testimony at the hearing held on it, indicates that the pattern embodied in it is appropriate for the United States.

It therefore may be helpful to turn to the more significant aspects of that pattern. As will be seen later in the discussion of our unilateral treatment of foreigners, this pattern is also important in the shaping of our statutory rules.

Definition of Permanent Establishment

The definition of permanent establishment set forth in the OECD Draft is clearly becoming the model for the various treaties. The member countries have recognized that, while subject to some technical deficiencies or ambiguities, the definition is satisfactory over-all. They therefore have adopted it, improving on it as the definitional problems emerge. The provision set forth in the German protocol is the form the United States is currently using. This provision is more particularized than the previous form, and somewhat more permissive in the operations that can be conducted by a business activity before it will be regarded as having a permanent establishment. It may be observed that this definition refers specifically to a "place of management" as a permanent establishment. Though this concept was not separately delineated before, it was in effect recognized as a factor under some prior treaties, as in the case of the German treaty. But since it may be a relatively unfamiliar term in our tax lexicon, the United States is taking appropriate steps, through memoranda of understanding, exchanges of letters and the like, together with its own Regulations, to emphasize that the term refers to "management" in a substantive and meaningful sense and not to minor, representational or sporadic activities. More care is also being given in the treaties to the definition of "industrial and commercial profits" (the kind of income for which the presence of a permanent establishment is requisite to its taxation), with the result of greater particularity in the enumeration of types of income not covered by the phrase.

Given, on the one hand, the scope of operations thus afforded to a business activity before it is regarded as constituting a permanent establishment and, on the other, the tax and non-tax factors that point to the use of a foreign subsidiary as operations become still more extensive, it seems likely that permanent establishments, or branch operations, are relatively quite few in number, or are generally confined to certain lines of activity, such as insurance, banking, and natural resource activities. Thus, as respects the permanent establishments of foreigners in the United States, there were less than 500 foreign corporations actively engaged in business in the United States in 1962, of which almost half reported a loss on their United States business operations. The total amount of income reported by the profit-making branches was less than $100,000,000, of which over 75 percent was attributable to 58 insurance companies and 14 investment companies. If the

deficit companies are taken into account and the insurance companies excluded from the calculations, the total taxable income of the 375 other branches is less than $7 million. This figure, however, reflects allowance of the 85 percent dividends received deduction, without which it might be considerably higher.

Force of Attraction

Our previous treaty pattern, once a permanent establishment existed in a country, was to provide that all income of the taxpayer arising in that country was "attracted" to that permanent establishment, and taxed at the rates and in the manner applicable to business enterprises. This meant, for example, that investment income which would otherwise have been taxed under the treaty at relatively low withholding rates or fully exempt, remained subject to tax at regular rates. The OECD draft abandons this force of attraction approach and therefore leaves the investment income of a taxpayer having a permanent establishment to be separately treated, except where the asset giving rise to that income is "effectively connected" with the permanent establishment. Also, only the industrial or commercial profits "attributable to" a permanent establishment are to be subject to tax, and any industrial or commercial profits not so attributable are, lacking the relationship to a permanent establishment, exempt from tax under this approach.

This approach has much to commend it, since the separation it permits between trading or other business activity and investment activity makes for a freer movement of capital and goods between countries. The approach also makes unnecessary the steps taxpayers have taken, recognizing the utility of that separation, to achieve it through isolating the business or investment activities in a separate subsidiary solely designed for this purpose. For these reasons the approach has been adopted by the United States in the German and Netherlands protocols. Of course any new concept and its terminology carry their interpretative problems at the edges of the concept, and this will be true of such phrases as "effectively connected" and "attributable to," just as it has been true of other phrases and concepts in the treaties. Nor can we here expect full uniformity of treaty terminology, as the combination of emerging experience and negotiating preferences will produce some variations. We hope through Regulations, however, to offer guidance as the questions emerge and to place any language variations in their proper perspective.

Capital Gains

The OECD Draft Convention, largely following European practice, restricts the taxation of capital gains to the country of residence,

except as to gains on real property and assets effectively connected with a permanent establishment. While this approach is at variance with some of our prior treaties, it often has been followed by us in the past. Moreover, the approach is based on the desirability of a free movement of capital and the difficulties of effectively taxing captial gains in the source country in an orderly way. Consequently, the German and Netherland protocols provide generally for the exemption at source of capital gains. The German protocol excepts from exemption short-term gains, on assets held for six months or less, where the taxpayer has resided in the source country for 183 days or more. This exception in the case of a taxpayer with an extended presence, i.e., 183 days, in the source country is likely to appear in our various treaties. A stay of that length seems to warrant a tax liability to the source country, especially where the gains are speculative in nature as in the case of assets held for a short period of time. Moreover, in many countries, such a stay will make a taxpayer a "resident," and hence subject to tax on capital gains. This "183 day" exception may take variant forms, as our experience develops and the attitudes of other countries are formed.

Treatment of Dividends

The OECD Draft recommends, as appropriate international withholding rates on dividends, 5 percent on parent-subsidiary dividends and 15 percent on dividends on portfolio investment. A parent-subsidiary relationship requires a stock ownership by the parent of 25 percent of the stock of the subsidiary. But the treatment of dividends is one of the treaty provisions, perhaps the principal one, that is generally the subject of real differences of opinion and hard bargaining between treaty countries. Since dividends usually represent the main item in the income flows between countries, the revenue importance of the withholding taxes on dividends is usually significant, and certainly more so than for the other items. Also, one country may find that its portfolio investment abroad is more significant than its direct investment, whereas the opposite could be the case for the other treaty country. Moreover, the rates of the underlying corporate tax will vary from country to country. Further, the form of the underlying corporate tax also will vary: some countries may have a straight corporate tax (the United States and the new United Kingdom taxes); others a tax that provides a lower rate to the corporation for distributed profits (the German tax); others a tax all or part of which is regarded as a withholding tax on the shareholders so that the latter receive a corresponding credit

against their individual income tax on their dividends. The form of this credit in turn may vary: it may be of the gross-up variety, and therefore accurately reflecting the part of the corporate tax treated as withholding tax (the former United Kingdom tax, the Belgian tax, and new French tax); it may or may not involve refunds to taxpayers who otherwise cannot use the full credit; it may or may not extend to foreigners; it may not involve a gross-up credit but only be a flat percentage of dividends received (the Canadian tax). And a country which treats part of its corporate tax as a withholding tax may also have as a collection device a supplementary withholding tax on dividends similar to its other internal withholding taxes. In addition, in some countries bearer instruments may predominate and thus restrict to some extent the degree to which certain tax approaches can be effectively implemented.

These differences in revenue significance, in corporate-shareholder tax structure, in the differing policy goals and attitudes respecting the encouragement of private savings and investment that they reflect, and in the prevalence of the bearer or registered share form of corporate shareholdings all combine to shape a country's approach to the treaty provision governing dividends. Given all this, one cannot expect uniformity in this area.

The United States' basic position regarding the dividend provision is to a considerable degree, reflected in its recent treaty activities. We stand ready to offer any country the OECD recommended rates of 15 percent on portfolio investment and 5 percent on parent-subsidiary investment. Some other countries chose, however, for a variety of reasons, not to adopt the 5 percent rate on parent-subsidiary investment so that as a consequence some of our treaties will, as a reflection of treaty negotiations, contain rates of 10 percent or 15 percent for that investment. But, since the United States offers the OECD rate of 5 percent to all, the variations in our treaties thus reflect the unwillingness of other countries to adopt that 5 percent rate. We believe, however, that countries should seek to present a uniform approach to all their treaty partners, and thus as far as possible fix on a set of rates that they will offer to all comers rather than seek to differentiate one country from another. In addition, the rates of withholding tax that are adopted should be reciprocal, in that a country should not be able to claim higher treaty rates than the rates it desires us to adopt in the treaty. The other country is free of course to prefer rates lower than those which it seeks of us.

We prefer a definition of the parent-subsidiary relationship that uses a 25 percent stock ownership test, but which would permit that degree of ownership to be met either by a single parent company or by several corporate shareholders in combination. Also, adequate attention must be paid to prevent the reduced dividend rates, as well as reduced rates on interest and royalties, from flowing to nonresidents of a treaty country, since we do not desire to encourage the tax-haven form for the holding of interests in the United States. Our treaty with Luxembourg and the Netherlands Antilles protocol reflect this approach.

The recent protocols concluded with Belgium, Germany and the Netherlands are in keeping with these concepts. The first two adopt a 15 percent rate, reflecting the desire of those countries that the withholding rate be 15 percent for both portfolio and parent-subsidiary investment; the Netherlands protocol has the OECD rates of 15 percent and 5 percent. The German protocol provides the protection needed by a country using a lower rate for distributed profits against a dividend distribution followed by immediate reinvestment, where the latter route is advantageous tax wise, by raising the German rate to 25 percent in such a situation. The Belgian protocol achieves reciprocal rates of 15 percent on registered shares, thus reducing the otherwise applicable Belgian 18.2 percent effective rate, while allowing a period of time to explore the administrative problems of applying the 15 percent rate to bearer shares and taking recognition of the fact that in actual practice the rate on the bearer shares typically held by American investors rarely exceeds 15 percent.

The concepts enumerated above will meet satisfactorily many of the varying situations presented under the influences earlier mentioned. But it is quite possible that further concepts are needed to achieve a freer flow of international investment and proper international tax treatment. Some corporate tax structures result in an unneutral tax effect between those of a country's taxpayers who invest abroad and those who invest at home. This unneutrality may not always be initially intended in the structural design, but rather may represent the way the pieces fitted together in the end. More often it will be a consequence of a structural design chosen for internal reasons, but a consequence that becomes a policy if steps are not taken to prevent the unneutrality from persisting. This is most likely to occur where a country

adopts a corporate-shareholder tax relationship under which a credit is given to domestic shareholders for part or all of the corporate tax on domestic corporations. If a comparable credit is not extended by the country to its domestic shareholders who invest in foreign corporations, then the tax system will embody an unneutrality favoring investment at home. The United Kingdom, when it used an integrated corporate tax with a grossed-up shareholder credit, avoided this unneutrality by allowing its shareholders by treaty a credit for a foreign underlying corporate tax. Its treaty partners sometimes reciprocated, as in the case of the United States - United Kingdom treaty where the United States gave its shareholders in United Kingdom corporations a credit for underlying United Kingdom corporate tax. But such reciprocity would not appear to be a necessary ingredient, since it in turn may inject an unneutrality between the reciprocating country's investors at home and its investors abroad.

It would seem that an appropriate goal in international tax relationships is the achievement as far as possible of a basic neutrality in tax effect between investment at home and investment abroad. This neutrality should be a long-range aim of a tax structure. There may be reasons, such as those associated with a balance of payments posture, to depart temporarily from time to time either to favor investment at home in the case of a deficit country, or to encourage investment abroad in the case of a surplus country. But even here the temporary swings could be made more appropriately through devices -- such as the interest equalization tax in the United States or foreign exchange measures abroad -- not associated with the basic income tax structure lest they become embedded in that structure and resistant to change when the temporary need has passed. The presence of investment incentives, such as investment credits or allowances or rapid depreciation, may also impart an unneutrality through being limited to domestic investment. As far as possible, however, the achievement of neutrality between investment at home and investment abroad should be a part of the basic structural design of a country's tax system. But it also would seem appropriate to use the treaty medium to achieve the alteration in unilateral statutory treatment necessary to reach this neutrality. Since the OECD Convention does not really deal with this aspect, it is an area where further exploration is needed.

One other matter requiring further exploration is that of the so-called "round trip dividend". If a parent in country A receives a dividend from its subsidiary in country B, there will usually be a withholding tax paid to country B on that dividend. If residents of country B own stock in the parent, then on payment of a dividend to them by the parent, there will be a withholding tax by country A. One can ask whether, as a consequence, this "round trip" is too heavily taxed. Of course the parent's dividends to country B are not dollar for dollar traceable to the dividends it received from its subsidiary in that country. But still some amounts have taken a "round trip". Further, there are at present very few corporate parents in the world where such flows from and to a country would be of a size in which the amounts of both flows were significant. And the technical patterns and the pitfalls of possible solutions are not readily apparent. Still, since the "round trips" are likely to increase in number and significance, the problem should commend itself to the tax experts for study.

Non-Discrimination

Another facet of international neutrality lies in the omparison of the treatment between domestic taxpayers and he taxpayer from abroad. The older version of tax treaties enerally sought non-discrimination between the domestic axpayer and the foreign national residing in the country, and ometimes extended the coverage to a permanent establishment. he OECD Convention, in the interests of a wider neutrality, urther extends this non-discrimination to domestic corporations f a country owned by nationals of the other country. The nited States believes the OECD approach is desirable, and it is ontained for example in the Netherlands protocol. Generally, t would appear that the inclusion or application of this clause hould not involve serious policy differences, and neutrality f this type should be achievable.

The effect of the varying corporate-shareholder tax atterns described above on neutrality between domestic nvestors and investors from abroad may, however, be in need f further analysis. For example, a corporate tax system under hich part or all of the corporate tax is regarded as a ithholding tax on the shareholders, so that the shareholders are llowed a credit for the "withheld tax", will discriminate gainst the shareholder investors from abroad if the benefits that credit are not extended to the latter. The non- scrimination clause in the OECD Draft can be regarded as

implying that the task of avoiding discrimination in this context falls on the country of source. The possible methods of achieving this result would of course have to be explored. And the effect of any such step on the investment relationships in the other country, i.e., the relationship between its taxpayers who invest at home and those who invest abroad (and thus become the "shareholder investors from abroad" in the first context) must be kept in mind. These also are matters not fully discussed in the OECD Convention and thus require further attention.

Allocations of Income

The OECD Convention continues the conventional clauses regarding allocation of income: the allowance of appropriate deductions to a permanent establishment of all expenses connected with it wherever incurred; the arm's length standard of allocation between related persons, such as a parent-subsidiary relation; the entitlement of a taxpayer to present to his Government a case of alleged action contrary to the treaty and the exhortation to the Contracting Parties to resolve any such situation if well founded; and the desirability of consultation between the Contracting Parties to settle interpretative and other questions. In addition, any excess of "interest" or "royalty" payments over a fair and reasonable consideration is not regarded as covered by the interest and royalty articles, but the excess instead is taxed in a manner appropriate to the situation, which presumably will usually be as a dividend.

The United States seeks to follow these provisions in its treaties, since they represent a necessary technical framework. But we feel that the day-to-day problems of international allocation cut deeper and will require further substantive rules if a proper international framework is to be achieved. The main need, simply stated but very difficult in execution, is to achieve standards and criteria furnishing guidance on what are appropriate allocations in the great variety of cases that arise -- the payment of interest on inter-company loans, the payment of royalties on inter-company licenses, the fixing of prices on inter-company sales, the reimbursement of expenses incurred for inter-company services, and so on. This matter is discussed further in connection with our statutory rules.

It is recognized that it will take time to evolve agreed upon standards. But the United States believes that through treaties we should now ensure than any agreements that are reached between governments and taxpayers in particular cases, under present standards or those that will be formulated, should be capable of being implemented in full. As matters now stand, however, procedural and other barriers may prevent this. Thus, since disputes of this nature often take considerable time to resolve in particular cases, an agreement may be reached calling for a reduction in the tax previously paid to one of the countries only for the parties to find that the statute of limitations has run on the filing of a refund claim or the payment of the refund. Such a procedural barrier would result in international double taxation. To avoid impediments of this nature, the United States believes that treaties should provide that an agreement once reached shall be fully implemented, and a refund allowed in accordance with the agreement, despite such procedural or other barriers. Such agreements could relate either to the allocation of profits or to the source of an item of income. In the latter case the implementation should extend to the consequent effect of the agreed source on a foreign tax credit.

Other countries appear to agree with this view, and clauses to this effect are being incorporated in our treaties, as in the German and the Netherlands protocols and the Israel treaty. It has also been agreed with Belgium that the language of our existing Belgian treaty has a similar effect. We regard this result as a significant step toward the goal of achieving a proper framework to meet the problems of international allocation.

Drafting and Interpretation

Those who read and apply treaties -- as well as all persons with orderly minds and habits -- earnestly urge uniformity in the drafting of tax treaties. And all treaty negotiators will fully agree in principle. However, each negotiator usually has his mind set on his own pattern of a uniform and orderly treaty. And there is no negotiator who will place uniformity above agreement when the hour is late and a seemingly intractable problem yields to a welcome solution that departs "just a bit" from the words in other treaties and may "possibly" have some ambiguities which the negotiators feel any reasonable men will later be able to resolve if the cases actually arise -- just as the negotiators have so successfully resolved their problem!

Uniformity and clairty never stand as impassable barriers to compromise solutions. If they did, we would have the uniformity of no treaties. Nor should uniformity with the past block improvements that are now seen to be desirable.

All of this is not said to disparage the goal of uniformity, and the United States seeks to achieve it as far as possible. But in practice we know we will fall short. An offsetting step is to clarify the disuniformity -- to state through Regulations or in other ways when and to what extent different words, different phrases and different approaches in various treaties, or even the same treaty, really embody differences in end result and are so intended. Despite delays that have occurred, we therefore are working on Regulations that would maintain order among the variations. Whether this can be done within the framework of a master set of treaty Regulations or whether some other device is more useful remains to be seen, but the end we seek seems clearly necessary.

Less Developed Countries

In my Montreal paper I described at length the interests of the United States in achieving treaty relationships with less developed countries, and the interests of those countries in the same goal. We are not alone in recognizing these values, for many of the other developed countries are engaged in considerable efforts to achieve a network of treaties with the less developed countries, and indeed are succeeding. This in turn behoooves us to keep to the task, lest we lose the advantage which others find in this very useful device for ordering some of the relationships between the developed and less developed worlds.

Fortunately, our efforts to achieve a proper set of treaties are succeeding. We have negotiated treaties with the Philippines, Thailand, and Israel, in that order, and these are before the Senate. We have agreed on a draft with India, and are engaged in completing negotiations commenced earlier with Taiwan. We are informally discussing with several Latin American countries the appropriateness of negotiations. Also, existing treaties are being revised; thus we are considering with Honduras, whose treaty was the first we negotiated with a less developed country, appropriate modifications of that treaty. As another illustration, we are engaged in negotiations with Trinidad and Tobago to explore revisions in a treaty which has its origin in the extension of our United Kingdom treaty to that country on its independence.

[ndeed, we are likely to overlook the fact that this process ɔf treaty extension has given us a set of treaties with a ıumber of less developed countries which have achieved inde- ɔendence.1/

We also have treaties with Honduras and Pakistan -- as vell as the three pending in the Senate -- to complete the ɔresent list of our treaties with independent less developed :ountries.

These treaties in one sense are in an evolutionary period, specially since for many of the countries involved the very egotiation of tax treaties involves a new activity. Moreover, any of these countries are negotiating against a background of volving internal laws, as their tax policies change and as technical mprovements are made under the pressure of modern commercial elationships and transactions. Nevertheless, a certain pattern s being achieved in these treaties, which we are seeking to tilize as we extend the range of our negotiations. The hree recent treaties, with the Philippines, Thailand, and srael, largely exhibit that pattern, with the Israel treaty videncing the arrangement and, in general, the technical rafting which we regard as desirable.

The following is a summary of the developing pattern:

<u>rrangement and Drafting</u>

These treaties, while influenced by the OECD Draft, are ɔt likely to be as closely tied to that draft in wording or :rangement. The treaty with Israel, for example, follows an ıtirely different arrangement of the treaty provisions, and one ıich we believe is more manageable.

Cyprus, Jamaica, Malawi, Nigeria, Sierra Leone, Trinidad and Tobago, and Zambia (United Kingdome treaty extension); Burundi, Congo (Dem. Rep. of), and Ruanda (Belgium treaty extension); also Netherland Antilles (Netherlands treaty extension).

Relief from Double Taxation

The countries so far have followed a credit approach to relieve double taxation, as does the United States. We may not see therefore as much resort to the exemption approach, or the combined exemption-credit approach, that we see on the part of our treaty partners in our developed country treaties.

Source of Income

The treaties generally contain a description of source rules for various items of income, following international standards. In some cases this treaty approach is a way of meeting the problem caused by the absence of, or incomplete, source rules in the statutory provisions of these countries.

Non-Discrimination

The OECD Convention respecting non-discrimination of foreign nationals residing in the country, permanent establishments, and domestic corporations owned by nationals is being followed.

Permanent Establishment and Industrial Profits

The OECD approach is generally followed in the definition of permanent establishment and on the treatment of industrial and commercial profits, with a few exceptions. One is that the force of attraction approach is still being applied, as perhaps simpler of administration, though the desirability of continuing to use this approach is an open question. Another is that some countries (not Israel) desire specifically to treat as a permanent establishment an agent who regularly secures orders in the country for the foreign taxpayer or maintains a stock of goods from which delivery is regularly made. If such an agent is an independent agent, however, he will not constitute a permanent establishment. These countries may desire to specify that an agent is not independent who acts exlusively or almost exclusively for the foreign taxpayer. Aspects of this approach are a cause of concern to some Unted States taxpayers who have been securing orders for their goods through a subsidiary formed in the other country. As a consequence, we will carefully explore with these countries ways of meeting this situation which do not upset these parent-subsidiary exporting arrangements or other appropriate arrangements.

)ividends

Some of these countries are hesitant to reduce their with-olding rates on dividends, fearing a loss of revenue. Where elevant they point out that extensive incentive provisions of ieir laws often eliminate or materially lessen the corporate ax rate, so that the effective rate of total tax is well elow 48 percent. The United States, where relevant, calls tention to the desirability of reducing over-all effective ates to 48 percent, and even lower where not grossing-up the oreign dividend produces an excess foreign tax credit. The oreign reaction differs. The Philippines were not ready to ake any reduction in withholding rates on investment income, eaving that country with a 30 percent internal corporation ax and a 30 percent withholding tax for an effective rate of 1 percent on dividends going abroad (in the absence of a omestic incentive provision). When all profits net of corpo-ate tax are distributed this produces an excess credit of 8.4 percent. hailand reduced its withholding rate from a maximum of 25 ercent to 20 percent, with a corporate tax rate of 25 percent in the absence of an incentive provision), giving an ffective rate of 40 percent -- the prior rate was 43-3/4 ercent, which resulted in an excess credit of about 1 percent or a corporate shareholder. Israel retained its 25 percent ithholding rate. Israel imposes a corporate profits tax of 8 percent plus a tax of 25 percent on corporate net income fter profits tax less any dividends distributed (in the osence of an incentive provision). Dividends distributed are ius subject to the corporate profits tax of 28 percent and a ithholding tax of 25 percent, leaving an effective rate of 46 ercent, below our 48 percent rate but resulting in an excess redit in the absence of gross up of about 3.6 percent. As will discussed below, the United States applied certain investment ovisions on its part, such as extension of our 7 percent ivestment credit in the Thailand, Israel and Indian cases, but ot in the case of the Philippines in part because its effective ite exceeded 48 percent.

It should be recognized that in their treaties with other veloped countries, the above countries adopt largely similar proaches as respects their withholding rates.

terest

These countries appear even more hesitant about reducing thholding rates on interest. They are willing to do so if the nder on our side is a Government Agency, where exemption is

granted, and in the case of Israel if it is a bank, where a 15 percent rate is used. But otherwise they appear so far to put revenue maintenance ahead of even possible reduction in interest costs to their debtors where the foreign lender is passing on the withholding tax to the borrowers.

Royalties

The royalty area presents a mixed approach. Some countries, as Israel and Thailand, reduced their withholding rates to 15 percen Others are not desirous of taking this step, but are willing to pen royalties (and rents) to be taxed electively on a net income basis.

In all of these situations -- dividends, interest, and royalties -- these countries are not basically concerned about our 30 percent withholding rate since they do not receive investment flows from the United States. As a matter of treaty reciprocity, however, they ask for provisions that match their concessions.

Ships and Aircraft

These countries, paralleling developed country treaties, conser to reciprocal exemption for air and ship transportation, though sometimes the latter will receive only a reduction to 50 percent of the otherwise applicable tax rather than complete exemption.

Temporary Visitors

These countries, here also paralleling to a considerable extent developed country treaties, consent to exempt temporary business visitors from their taxes. The standards will differ somewhat, but usually involve a limited period of time, such as 183 days, and a limitation on the amount earned, sometimes applied on a daily basis in the case of entertainers and other performers.

Other Substantive Provisions

These treaties generally contain the other standard substantiv provisions, such as those affecting teachers, students and trainees (but with more emphasis on their part on this aspect and perhaps with more liberal exemptions at source being sought), government personnel, and pensions and annuities.

Procedural Provisions

These treaties also contain the customary procedural provision such as consultation, exchanges of taxpayer information and legal

information, and taxpayer claims. The Israel treaty and the Indian draft include the removal of procedural barriers to the effectuation of agreements on the allocation of profits and the source of items of income.

Provisions on the United States Side -- Investment Credit, Technical Assistance and Charitable Contributions

The treaty pattern described above represents significant accommodations by the less developed countries to the international standards that have evolved in treaties between developed countries, but do not in turn represent any real concessions on the part of the developed countries. The flows of investment income -- dividends, interest, royalties -- and of export trade, business and cultural visitors, and ships and aircraft are overwhelmingly from developed countries to less developed countries. Perhaps the only exception is that of students and trainees. This does not mean that the treaty provisions are wrong or unfair in concept, but simply reflects the economic relationships on which these international tax standards are being superimposed. Yet all of this understandably presents problems to the less developed countries -- problem of revenue loss, of negotiation, and of justification to their peoples.

Under these circumstances these countries have sought some concession from the developed countries. This search, in the light of their desire for additional investment from abroad, has centered around treaty provisions that they regard as offering encouragement to this foreign investment.

As a consequence, the other industrialized countries entering into tax treaties with less developed countries -- and there appear to be over 30 of these treaties -- have found it necessary to incorporate a provision which the less developed countries consider a stimulus to capital inflows in order to obtain a treaty with them. The approach followed involves exemption by the industrialized country of various forms of income received by its taxpayers from activities in the less developed country. Another approach is the so-called "tax sparing credit." In treaties incorporating such a provision, the capital exporting country agrees to allow a credit against its tax, not only for the taxes actually paid to the less developed country, but also for the taxes that would have been paid to the less developed country if that country had not reduced its income taxes under some special tax concession scheme. There appear to be some 20 "tax sparing" treaties in force between industrialized countries and the less developed countries.

In our view these approaches are undesirable. Thus, tax exemption of income derived from investment in less developed countries would be viewed as a highly inequitable provision by American taxpayers engaged in business in the United States and would have a highly erratic effect on the relative tax burden of foreign producers as compared with those engaged in domestic production. It would be basically inconsistent with the principle of the foreign tax credit which seeks to maintain neutrality in tax burdens as between domestic and foreign economic activities. A tax sparing credit would equally be undesirable since it would operate capriciously, providing the largest tax benefits to our investors in less developed countries having the highest nominal tax rates and without any necessary relationship to the fundamental economic needs of a country or to such policies as the "Alliance for Progress." Moreover, such a credit would stimulate the rapid repatriation of profits from less developed countries rather than the reinvestment of profits in those countries.

Clearly we need some provision comparable in purpose if the United States is to obtain treaties with less developed countries. As a consequence the United States has offered to extend by treaty to these countries the 7 percent credit that now exists in the Internal Revenue Code for investment in the United States. Since in the Code this credit does not extend to investment abroad, its adoption established in effect a preference for domestic investment as compared with foreign investment. Consequently, the extension of the 7 percent investment credit by treaty to these countries offers itself as a fitting approach to the recognition those countries seek with respect to the encouragement of capital inflows. It would, so far as the United States is concerned, remove an impediment to investment in less developed countries and thereby in this respect establish a general parity of treatment between domestic investment and investment in the less developed country. In establishing this parity and thus assisting investment in these countries, we would also be pursuing a policy reflected in other tax legislation recently adopted by Congress. Thus, the Revenue Act of 1962, which was directed to "tax-haven" or "base companies" abroad, contains a number of provisions favorable to investment in less developed countries as compared with industrialized nations. Moreover, under the interest equalization tax, loans made to enterprises in less developed countries and investments therein are treated in the same way as domestic loans and investments and thus are exempt from the tax.

Moreover, the investment credit approach is far more appropriately suited to less developed countries than the tax sparing approach or the exemption of income approach, from the standpoint of equity, efficiency, and administration. Since the investment

:redit operates on the act of investment, it eases the risk of investment at the very outset. Since the credit does not turn on the receipt of income in the United States from the foreign investment, as do tax sparing and tax exemption, it does not encourage quick repatriation of profits. Since the credit does not turn on foreign tax concessions, as does tax sparing, it does not have the capriciousness of that device and its capacity to encourage "concession competition" among less developed countries, nor does it transfer from the United States to a foreign country the decision as to whether a tax benefit is to be conferred and, if so, the extent of such benefit. Since the extension of the investment credit to less developed countries would but follow the treatment accorded domestic investment, it does not involve the treaty process in favoring the foreign investor as against the domestic investor in a matter closely linked to the rates of tax, as did tax sparing.

The less developed countries so far have responded favorably :o our suggestion that extension of the 7 percent investment credit .s a recognition of their desire for an encouragement of capital .nflows. We have been able to demonstrate, moreover, that the ıonetary benefits to the investor from this credit are generally quivalent in among to what it would receive from a tax sparing pproach, given reasonable assumptions as to the time pattern of istributions, discount rates, and the like. And many countries ecognize the advantages enumerated above, both to the investor and he less developed country, of the credit approach over the tax paring approach.

In this light the extension of the 7 percent credit by treaty s the negotiating tool which permits the United States to achieve ax treaties with less developed countries which both we and they an regard as fair and balanced. The importance of this provision hus basically lies not in the benefits it extends to investors, but ather in what it thereby obtains for the United States -- a sound reaty system with the less developed countries with all the advantages ıch a system provides -- for both parties to the treaty -- for nproved investment, trade, and cultural relationships between the ıited States and these countries.

As a consequence, the provision is incorporated in the ıailand and Israel treaties and in the India draft. Its technical ·ovisions, as expressed in the Israel draft, are of course subject improvement as experience is gained. Moreover, the provision can terminated after five years without a termination of the entire eaty.

The United States in these negotiations is quite clear on its view that extension of the investment credit is appropriate only where the other country is receptive to our investment and where its tax system, taken as a whole, does not involve measures that can be regarded as significantly working at cross purposes with this investment. In many cases the existing tax systems of less developed countries do not meet this standard. But the treaty process itself permits the foreign country to modify its tax system through the treaty and thus deal with the provisions of its tax law which act as disincentives to investment from the United States. For example, the existence of a complex of corporate taxes and withholding taxes on dividends in a less developed country, which brings the effective rate of tax on profits earned there above the general level of the United States corporate tax, creates a tax barrier to our investment in such countries. It would generally be difficult to justify a tax credit for United States investment in such a country unless that country is prepared to reduce its taxes to the level prevailing in the United States. This often can be done by a treaty but not otherwise, since that country may not be prepared to reduce its taxes on its own nationals or those of third countries.

The treaty process also permits complementary modifications where appropriate in the tax laws of the other country which are conducive to improved international trade. Where the other country is not yet ready to make certain modifications, or is more concerned with continuing a somewhat restrictive approach to foreign investors, then the investment credit need not be extended. While it may well be that in most of these cases a treaty may presently not be negotiable, this need not always be the result, as the Philippine treaty indicates. That treaty does not contain an extension of the investment credit.

The investment credit applies to investments of cash and tangible property. The Israel and Thailand treaties, and the Indian draft, also contain a complementary provision that seeks to offer encouragement for the investment of technical assistance. Here the approach is that of a deferral of both our tax and that of the less developed country on any gain that would otherwise be recognized when intangible assets, such as patents, processes or know-how, are exchanged by a United States investor for stock in a corporation of the less developed country. Under our statutory law this deferral would, where "property" is involved, be possible if 80 percent control is obtained by the United States transferor. Below this level of control our tax would apply. Moreover, there is frequently a tax in the other country as well, even in the case of 80 percent control. The treaty provision deferring these taxes until the stock is sold removes an impediment to the transaction, and is of minor effect on the United States revenues, since a foreign tax that would be incurred in the absence of the provision would generally be creditable against the United States tax.

Finally, as a step in simplifying the process of contributions to charitable organizations in these countries, a provision may be inserted, as in the Philippine and Thailand treaties but not Israel, to permit a deduction against United States tax of contributions made directly to such organizations. Under our statute the deduction could be obtained if made indirectly through a United States organization. The treaty provision requires that the foreign organization must meet the standards established in each country for a charitable organization. It may be observed that our Internal Revenue Service has experience in passing on the charitable character of foreign organizations as a result of its administration of the rule under our statutory law that a foreign organization which meets our test of "charitable" is not subject to any tax on income it receives from the United States.

The Subcommittee of the Senate Committee on Foreign Relations has performed a useful public service in holding last August full hearings on the Thailand treaty. The published Hearings contain a complete technical explanation of these United States provisions, as well as a detailed analysis of the entire treaty and a description of factors affecting negotiations with less developed countries. They also contain the views of organizations representing United States concerns that invest abroad, and the views are favorable to these investment provisions and to the treaty itself. The only matter referred to as needing further consideration by the Treasury is that mentioned earlier in connection with the definition of permanent establishment.

Necessarily as experience is gained the present pattern described above that has so far evolved in our negotiations with the less developed countries can be improved. The progress of these negotiations is encouraging, for it indicates that the United States and these countries can reach a treaty arrangement that each regards as fair and conducive to improved investment, trade, and cultural relationships. This attitude and the promise it holds for a growing network of tax treaties represent a major step in our political and economic relationships with these countries.

II. ADMINISTRATION OF UNITED STATES STATUTORY TAXATION OF FOREIGN INCOME

In the Montreal paper I stressed the importance of developing a sound administration of the United States statutory taxation of foreign income. This task is a formidable one: The field is relatively new as tax matters go, and the needed experience, analysis of detail, and synthesis of concepts are still in a formative stage; the international business activities to which the rules relate are rapidly expanding in importance and number, and the variety of transactions and business relationships involved thus steadily increases; the tax rules moreover are constantly being buffeted by the shifting exigencies of balance of payments problems. But all of this merely underscores the challenge of the task, and the Treasury is seeking to respond in a fitting manner.

As I stated in my Montreal paper, some matters have already been accomplished. The Regulations for the 1962 Revenue Act provisions regarding foreign income have been issued. Further, one of these Regulations provides the tax accounting concepts essential to any orderly administration of United States tax rules affecting foreign income. These Regulations provide the guidance needed to translate foreign income statements into the "earnings and profits" of our tax laws.

Allocation of Income - Section 482

With this done, the Treasury has regarded as the next order of business the establishment of a satisfactory framework for the administration of the rules governing transactions between the domestic and the foreign units of our business concerns with foreign activities. In our tax parlance, this centers on the application of section 482 of our Code, authorizing the Commissioner to allocate income and credits between related units of an enterprise so as to prevent evasion or clearly reflect the income of the various units. While this section, whose presence and application are clearly necessary to a sound income tax system, had its original technical development in connection with transactions between domestic units of a United States enterprise, its recent importance is almost entirely in terms of its application to the foreign income field. The very variety and number of transactions in this field that lie within the reach of the section had overstrained the level of technical development that had been achieved in its domestic application. The situation thus called for a many-faceted implementation of the section so that it may carry the new burden placed upon it. The following discussion catalogues the steps being taken to achieve that implementation.

Orderly Treatment of the Pre-1963 Years -- Revenue Procedure 64-54

The first major step needed was an orderly treatment of the controversies that had arisen for the years prior to 1963. The recognition by the Internal Revenue Service in the late 1950's that section 482 had to be applied on a much wider basis in the foreign field brought a sudden surge of audits and controversies, since many taxpayers in their inter-company arrangements may not have fully considered the range or implications of that section. While some aspects of the section -- such as the requirement of an "arm's length price" on sales of products between related enterprise -- were recognized, other requirements had not been explicitly developed. As a consequence, many taxpayers for these years

were faced with Internal Revenue Service adjustments increasing their United States income under circumstances which made it doubtful, at least in their view, that they could recoup the foreign taxes paid on the income involved in the adjustment as where on audit income was for section 482 purposes shifted from a foreign subsidiary to a United States parent. The double taxation that could result would thus generally make it imperative for the United States taxpayer to resist strongly any claimed adjustment, and the lines were being formed for prolonged and widespread controversy.

To prevent this, the Treasury, in December, 1964, issued Revenue Procedure 64-54, which allows taxpayers in the case of adjustments for years prior to 1963 to offset against any increase in United States taxes, occasioned by the adjustment, the foreign taxes paid on the income involved and thus to avoid double taxation. In addition, the Revenue Procedure states that the Revenue Service would not, except in certain limited instances, pursue for those years adjustments based on applications of section 482 that were not clearly required by its previous technical development, such as the requirement of interest on inter-company loans or royalties on patents licensed to foreign subsidiaries, or the allocation of general and administrative expenses.

The effect of this step has been quite salutary. Through its achievement of an orderly treatment of the pre-1963 years and the consequent very marked reduction in number and dollar amount of deficiencies under the section for those years, it has permitted the needed technical development of the section to proceed in an atmosphere free of acrimonious disputes that would otherwise have existed. It has thereby enabled -- and indeed requires -- taxpayers and the Government to consider objectively and responsibly the shape of that technical development.

The confinement to pre-1963 years of the ability under the Revenue Procedure to offset foreign taxes against a United States adjustment is of basic importance. From the standpoint of internal fairness, this limitation mirrors the fact that taxpayers by the end of 1962 had generally become aware both of the possible reach of section 482 and of the Service's decision to apply the section in keeping with that reach. But, of more importance, the limitation recognizes that a country cannot continue to administer such a section in this self-denying manner. For the continued allowance of the foreign tax offset would simply mean that the United States would be yielding control over its allocation

problems to the allocation rules of foreign countries and the decisions of their administrators. Double taxation would be averted -- but the cost would be borne by the United States Treasury. While our foreign tax credit system recognizes that to prevent double taxation we are willing to yield first claim to the country of source, the integrity of that system depends on a rational framework of international allocation rules. The United States is thus entitled to insist on appropriate recognition of the rules it believes proper, and is not required to surrender its part in the construction of that framework. The same privilege of course belongs to any other country. The claims of the various countries may conflict and their failure to resolve them will lead to double taxation and increased burdens for the international taxpayer. But that is but another facet of the problem, to be discussed later, rather than a signal for us unilaterally to yield the field.

Hence, the import of Revenue Procedure 64-54 for the future is to underscore the importance of the formulation of rational internal guidelines under section 482.

Repatriation of Income and Section 482 Adjustments -- Revenue Procedure 65-17

A section 482 adjustment in the foreign area usually means that a United States taxpayer has understated its United States income and overstated its foreign income -- goods have been sold by a United States parent at too low a price to its foreign subsidiary, services have been rendered by that parent at an inadequate fee, and so on. What are the rules that should govern the attempt to recast the accounts between the subsidiary and the parent: Suppose the subsidiary desires now to transfer the income that is said to be the parent's income -- will the transfer be a taxable dividend or handled instead as a payment on account of the section 482 adjustment? Suppose a dividend was included in the parent's income for the year to which the adjustment relates -- can the dividend be recast as a payment on account of the adjustment? These questions of course required answers so that the transactions could be fitted into their proper tax niche. But balance of payments considerations added an extra urgency to the questions. Taxpayers wishing to respond to the Government's stress on the desirability of repatriating foreign earnings were concerned about distributing dividends from their foreign subsidiaries if they also were to be faced by section 482 adjustments

in the parent's income. They saw in the combination the possibility of having more income being taxed in the United States than they desired or was required by law.

To meet these questions, the Treasury in March, 1965 announced rules later embodied in Revenue Procedure 65-17, establishing an appropriate relationship between repatriations of income and section 482 adjustments. Under this Revenue Procedure a taxpayer will be permitted to recast dividend payments, for the year to which a section 482 adjustment relates, into the type of payment required to reflect the section 482 adjustment -- the dividend may thus become a payment to the parent for goods or services, thereby avoiding the enlargement of the parent's income that would occur if dividend and adjustment were kept separate. In this case, of course, foreign taxes associated with the dividend are not allowed as credits. A taxpayer that did not receive a dividend in the year to which the adjustment relates (or did not elect to recast a dividend of that year) may, within 90 days after the adjustment is made, transfer an amount from the foreign subsidiary and have the transfer treated as the required payment and not as a dividend. Necessarily, the broad flexibility thus provided the taxpayer must be protected against abuse, or else section 482 would be deprived of any self-policing content. Hence the Revenue Procedure states that for years after 1963 this flexibility will not be available to taxpayers who cast their transactions in a manner which had avoidance of United States tax as a principal purpose.

This Revenue Procedure is thus an important step in permitting the section 482 adjustment to be fitted into a proper position within the flow of funds from the foreign subsidiary, a position that both removes impediments to the orderly repatriation of funds and makes it possible for a taxpayer to accept the adjustment without increasing the transfer of income from subsidiary to parent more than it considers desirable. Again, as did Revenue Procedure 64-54, its flexibility makes possible -- and likewise demands -- a responsible approach to the guidelines governing the substantive reach of section 482.

Section 482 Substantive Guidelines

The above procedural steps have set the stage for the development of appropriate guidelines for the substantive application of section 482. The Treasury is approaching this part of the task through the issuance of detailed proposed Regulations under section 482, to replace the present Regulations which for the most part simply establish the standard of arm's length dealing. The assignment is a formidable one, but we must remember that the development of the guidelines does not start from an accounting vacuum. The tax minded, and especially the lawyers, tend to overlook the fact that their new tax problems have very often been faced for some time in contexts outside the tax field. Thus, accounting practices and conventions respecting allocations of income have had to be developed before this in non-tax fields, both for internal accounting purposes and to meet the requirements of outside interests. The vast majority of industrial companies in the United States make some allocation of general and administrative expenses to their various operations as a normal business practice. The requirements of government procurement contracting and of public utility regulation have necessitated allocations of expenses between the government contract work and the other operations and between the regulated and the non-regulated sectors. And, indeed, even in the tax field taxpayers have made allocations to their foreign branches to determine the foreign taxes they consider to be properly payable.

The first set of proposed Regulations, building in large part on this experience, was issued in April, 1965. In general, it covers the allocations required where assets or services of the parent are made available to the foreign subsidiary -- where money is lent, where management or other services are rendered or made available, where machinery and other tangible assets are made available. Essentially the approach is to provide guidelines which, if the taxpayer follows them, offer a safe-conduct pass through section 482. The guidelines are intended to furnish a maximum of flexibility, and of course do not prevent the use by the taxpayer of other defensible approaches. For the most part they are based on the costs incurred by the parent and an allocation of those costs to the subsidiary in a manner that follows accepted accounting precedents. The following offer general illustrations. While the guidelines cover domestic as well as foreign transactions, their discussion here, and their main area of application, relate to the foreign area.

Loans -- Interest must be charged on a loan to a foreign affiliate: a 4 percent rate is acceptable; a lesser rate must be justified, and if it cannot be justified, the Service will apply a 5 percent rate.

Managerial and Other Services -- Managerial and other services rendered by the parent to benefit a foreign subsidiary must be compensated for, though a profit need not be charged by the parent. The amount of the compensation generally may be the cost to the parent of those services, since the subsidiary could itself have employed the persons performing the service. While cost includes both direct and indirect costs and they are to be reflected on a full cost and not a marginal cost basis, the indirect costs may be allocated under any reasonable, consistent method in keeping with sound accounting practices.

Machinery and Tangible Assets -- Machinery and other tangible assets made available to a foreign subsidiary can be reimbursed on a cost basis, covering out-of-pocket costs, depreciation and a small profit representing an allowance for a return on the parent's investment. This cost allocation approach rather than that of establishing a rental figure is a method of reflecting on the income side what would otherwise generally be the required disallowance of deductions to the parent. It also eliminates the disputes that would arise under an approach seeking to establish a fair rental value based on market rates.

Arm's-Length Test -- The above rules are cast within the general framework of an arm's-length test, and do not turn on following the transactions through the books of the subsidiary to see whether it used in a profitable way the money lent, the assets made available, or the services rendered. The fact that the subsidiary is losing money does not therefore prevent these allocations.

> This is the essence of the arm's-length approach, and is in keeping with the fact that these are international transactions under which the United States is entitled to a fair reflection of the moneys, goods and services that are being transferred. It is also in keeping with the general deferral rules that are consequent upon treatment of the foreign subsidiary as a separate legal entity. It also is consistent with a proper approach to consolidated return accounting.

The second set of proposed Regulations, now in preparation, will contain the rules applicable to inter-company sales of products and transfers of intangibles, such as patent licenses. The problems here faced in seeking appropriate criteria or guidelines are much more difficult. The first set of Regulations involved transactions which could be governed either by cost standards or by establishing an appropriate charge for a fungible item, money. But the second set of Regulations involves the matter of determining a fair profit for assets that, under the arm's length rule, are regarded as transferred in a profit-seeking transaction. Nevertheless, we seek to establish as helpful a set of rules as is possible in this area. We have, in this context, in TIR 441 issued in 1963, established guidelines to govern transactions between Puerto Rican affiliates who typically engage in manufacturing activities, and their United States mainland parents, who handle the distribution of the goods. This TIR has been quite helpful in facilitating the disposition of a large number of difficult cases. While it deals with a situation that has some unique aspects, it still provides us with some experience in approaching the proposed Regulations.

Finally, we are preparing Regulations to coordinate our section 482 Regulations with section 862 of the Code, a section requiring an allocation between domestic and foreign source income of expenses not allocable to specific items of gross income. When such expenses are allocated to gross income from sources outside the United States, the net amount of that income is decreased. This allocation of expenses is important largely for foreign tax credit purposes (the gross income and expenses are independently already taken into account in computing the taxpayer's domestic taxable income), because the allocation, by reducing foreign source income, can reduce a taxpayer's foreign tax credit. Clearly coordination with section 482 is necessary -- as a simple example, an expense of the parent for managerial services rendered to its foreign

subsidiary and compensated for by a fee should be allocated to that fee and not to a dividend received from the subsidiary.

The Needed International Accommodation

All of the above relates to the proper formulation of our unilateral rules of allocation with respect to international transactions. But since they are international transactions, a unilateral approach by the United States, or any country, is not sufficient. For if our unilateral rules do not mesh with those of other countries the result will be double taxation, the tax burden of which will be borne either by one Government through the foreign tax credit or by the taxpayer, with the other Government obtaining an unwarranted benefit. (Far less likely, though possible, is undertaxation of the taxpayer.) Each country, of course, must see both sides of the allocation coin -- the rules which the United States regards as proper to allocate income to our parent companies from transactions with their foreign subsidiaries are the rules we must be willing to accept when the subsidiary is here and its parent is a foreign corporation. This factor should have an effect in tempering the international assertion of rigid positions, and thus make it easier to achieve international accommodation. For it is clear that this must be the ultimate goal, an internationally acceptable set of rational rules to govern the allocation of international income arising through these transactions.

The United States believes that the OECD Fiscal Committee is the proper body to undertake the task of establishing the allocation standards to guide countries in reaching accommodations with each other. The OECD Fiscal Committee appointed a Working Party for this purpose. We intend, as a measure of assistance to that Working Party, to lay before it our proposed section 482 Regulations as they are developed. It is quite likely that these Regulations may represent a more structurally developed and detailed framework of allocation rules than has been formulated elsewhere, and hence may prove helpful as a starting point and as a way of focusing attention on a wide range of issues. We would, of course, welcome the analysis and discussion which we expect this would stimulate. We would be ready to make modifications in these proposed rules if such changes are seen to be appropriate as a result of this international discussion.

It may turn out that full international agreement on all the rules is not possible. We would then expect that the various Governments would consider what steps may be appropriate in dealing with the resulting conflicts and their double taxation effects. Various devices, which can be mentioned without an endorsement, have been suggested, such as arbitration, a payment once by the taxpayer at the higher of the two rates, or some formula to divide the burden among the taxpayer and the Governmer

While this formulation of international rules is proceeding, we must remember that adjustments will be made under existing unilateral rules and many will be acceptable to both the countries concerned. However, as these cases tend to involve a considerable time before agreement is reached on the adjustment, a taxpayer and the countries concerned may find that procedural barriers, such as a statute of limitations on refunds, may make it impossible to implement the adjustment in the country that has overtaxed the income. To remedy this, the United States suggests that tax treaties contain provisions waiving these barriers and thus permitting the adjustment to be implemented. We are finding other countries receptive to this approach, and as observed in the discussion above under treaties, have already included such a provision in several treaties.

Section 367

There is another important aspect of our treatment of foreign income that requires an elaboration of the applicable administrative rules. This is Section 367 of our Code, which in effect requires the Commissioner's consent to be obtained by the taxpayer before the benefits available under a number of the corporate tax provisions can be achieved if the transaction in question involves a foreign corporation. Here also we are concerned with a provision of wide application necessary to prevent tax avoidance in the field of foreign income, for the taxpayer must satisfy the Commissioner that the proposed transaction -- such as the formation or liquidation of a foreign corporation -- does not have tax avoidance as one of its principal purposes. It would be helpful to taxpayers -- and administrators -- if detailed guidelines could be formulated setting forth objective standards to govern the application of that section. The Treasury is now engaged in the preparation of these guidelines and is hopeful of early action in this regard.

III. UNITED STATES STATUTORY TAXATION OF FOREIGNERS

The steady attention focused by the United States in recent years on its balance of payments position has resulted in an extensive examination of the United States tax treatment of foreigners who invest in the United States. This examination commenced with the report on April 27, 1964 of the Committee appointed by President Kennedy on Promoting Increased Foreign Investment in United States Corporate Securities and Increased Foreign Financing for United States Corporations Operating Abroad, which was chaired by the then Under Secretary, and now Secretary of the Treasury, Henry H. Fowler. The Treasury Department study of that Report, and of the entire statutory treatment of foreigners investing here, resulted in proposals to Congress embodied in H.R. 5916, introduced in March, 1965. The House Committee on Ways and Means then gave extensive consideration to that bill and in September, 1965 Chairman Mills, at the instruction of the Committee, introduced a modified version of that bill for comment before the bill is reported to the House in 1966. The new bill, H.R. 11297, entitled the Foreign Investors Tax Act, contains the essential elements of the predecessor bill, but with certain modifications.

In my Montreal paper I discussed the principles which the Treasury Department considered applicable to the revision of this aspect of international tax relationships, and these may briefly be summarized: (1) The rules adopted should be in conformity with acceptable international norms. The United States, with its large flows of capital and goods in and out of the country, has a responsibility to take a major role in seeing that there is developed a proper international tax framework against which the tax system of any particular country can be considered. (2) The rules should permit a fair and sensible allocation among the various countries of the income from activities that reach across international borders. (3) The rules should assist in maintaining as far as possible the free international market of capital and goods, with taxes in any country as neutral a factor as possible consistent with the domestic policies to be served by a tax system. (4) A proper balance must be maintained between the taxes paid by our citizens on their United States income and those paid by foreigners on the same income arising here. (5) The rules should not permit the United States to be turned into a tax haven country vis-a-vis foreign investors, nor be so framed

as to permit, in combination with the tax rules of another country, the transformation of that country into a tax haven that would attract foreigners seeking to invest in the United States. (6) The rules should not be structured as to cause the capital of less developed countries, which are badly in need of the capital at home, to be drained off for investment in the United States. (7) Any benefits granted unilaterally by the United States should be so structured as to preserve a proper bargaining position for the United States in tax treaty negotiations.

The bill that has evolved from the consideration by the Committee on Ways and Means represents a balanced application of these principles. It recognizes that some of the existing provisions of our Code have become discriminatory and inequitable to foreign investors and thus a barrier to investment in the United States. In correcting this treatment the bill avoids at the other extreme rules that would represent only a desire to attract foreign investment, rules which would be but mere tax inducements or tax concessions. Indeed, the bill moves to correct certain instances where in the past our legislation was too favorable to foreigners when compared with the treatment of our own citizens.

The main provisions of the bill are here summarized:

Corporate Activity

Most foreign corporations that are involved in business activities in the United States generally operate through ownership of United States domestic subsidiaries or of significant stock interests in those corporations. The United States tax rules applicable are not complicated, and generally relate to our withholding taxes. This is equally so as to royalty situations. But where the foreign corporation operates here in branch form, the rules become more involved.

The existing statutory rules provide that a foreign corporation (or an individual) engaged in trade or business in the United States is taxed on all its income from United States sources at the regular rates applicable to business income, including not only the income from trade or business but also any unrelated investment income. The result

aralleled the force of attraction concept of the permanent stablishment provision in tax treaties. The new bill confines nis taxation at regular business income rates to the income effectively connected with the conduct of the trade or business ithin the United States," leaving the other income of the oreigner from United States sources to be taxed at our) percent statutory withholding rate or lower treaty rates. ne bill thus moves our treatment in this area over to the eneral approach followed by many other nations. It also is n accord with the OECD Model Income Tax Convention and our ew treaty approach, evidenced in our protocols with Germany nd the Netherlands, and thus has the advantage of conformity) international practice. The bill offers guidelines, to be upplemented by the legislative history, to the application f the "effectively connected" concept. A foreigner who is eceiving large amounts of investment income from the nited States, under the approach of the bill would no longer eed be concerned that some other activity in the United States ill suddenly be considered as giving him a trade or business tatus in the United States, and thus subjecting the investment ncome to business taxation. Instead, as long as the investment ncome is not connected with the other activity, any uncertainty to the status of the latter would not color or affect the investment come.

The bill implements the "effectively connected" concept by:) Making taxable any income so connected even though its source not within the United States, such as where a branch located n the United States imports goods from abroad and then resells ne goods outside the United States, with title passing outside the nited States. The income from the sale, untaxed today by the nited States and indeed often untaxed by any country, would be axable under the bill. (Any income not so connected with the trade business is taxed only if it is from sources within the United ates under the usual source rules.) (2) In keeping with the ove approach, providing a foreign tax credit, against the ited States tax on the trade or business income, for foreign xes paid on that income, if the foreign tax is levied on the basis source jurisdiction by the other country.

In this manner the bill obtains for the United States its oper tax on the full income of the trade or business conducted ere, and on any investment income effectively connected with it. the same time, by freeing the unrelated investment income from siness tax rates, it leaves that income to be taxed at the rates consider appropriate for investment income.

A number of our treaties provide for reduced withholding rates or exemption on investment income only if the foreign taxpayer has no permanent establishment in the United States. The adoption of the "effectively connected" approach, however, reflects a desire to permit application of those lower rates or exemption to all investment income which is not connected with a permanent establishment. We could achieve this result by a revision of each of our treaties to apply the lower rates or exemption despite the permanent establishment. However, this process would take a period of time. The bill eliminates this problem by unilaterally stating that these treaties will be applied to income not "effectively connected" as if the taxpayer did not have a permanent establishment in the United States.

Individual Investment

Most foreign individuals with interests in the United States are involved in investment activities, such as the ownership of United States stocks or securities. Under existing rules foreign individual investors in the United States have been subject to progressive rates of tax on their United States income, when the total amount of that income involved a greater tax under the progressive rates than was collected through our withholding taxes. The investors in turn have sought to sidestep those rates through placing their investments in a foreign corporation and thereby obtaining either the 30 percent statutory withholding rate or lower treaty rates on the investment income. But they have had to be careful to structure the foreign corporation to avoid its being a personal holding company with respect to its United States source income. And of course some investors have simply sought to cover their tracks, recognizing the difficulties any tax administration faces when it moves beyond withholding taxes in its attempt to reach income going to foreigners. The consequence of all this was that the United States collected very little taxes under the progressive rates, so that the withholding rates were in practice the effective rates.

The bill simplifies this whole area by abandoning the application of progressive rates and limiting our assertion of tax, as respects investment income (not "effectively connected" with a trade or business), to the technique of withholding and to the level of withholding rates. The bill, in keeping with this approach, also exempts from personal holding company tax liability a foreign corporation whose stock is owned entirely by foreigners. Moreover, in the case of any foreign corporation receiving income from United States sources, it confines our assertion that dividends distributed by that corporation to its shareholders are in turn to be considered by us, in the shareholders' hands, as income from United States sources, to a situation where 80 percent or more of the gross income of the

foreign corporation is effectively connected with the conduct of a trade or business in the United States. The tax on that portion of the dividends of the foreign corporation -- our so-called "second dividend" tax -- is thus confined to a case where the activities of the foreign corporation largely consist of operating a branch in the United States, so that the combination of our corporate tax on the branch profits and the second dividend tax results in about the same tax burden that would exist if the foreign corporation had conducted its United States business through a United States subsidiary.

The bill in two specific types of investment revises present law to remove tax clouds over that investment. As to real estate investment, an individual foreigner (or corporation) is permitted to elect to treat the income from the investment as trade or business income. He thereby may receive the benefits of deductions connected with that income and is taxable on the resulting net income at business rates if that approach is preferable to taxation on the gross income at withholding rates. This provision eliminates many tax uncertainties that presently attend investment in real property in the United States. As to stocks and securities, the bill rovides generally that a foreigner, individual or corporate, rading in those investment in person or through a resident gent, who may or may not have discretion to carry on investment ctivities, will not thereby be regarded as being engaged in rade or business in the United States. This provision should erve to clarify uncertainties in present law which have onfused potential foreign investors.

Finally, as respects the United States capital gains of oreign individual investors, the present unrealistic and omplicated rules have been restated to tax such gains only f the foreigner is in the United States for 183 days or ore during the year, and thus has a "presence" here comparable o that which would make him a "resident" under the tax laws of ny foreign countries. Also, capital gains effectively connected ith a trade or business are subject to tax. In the case of oreign corporations, this is the only situation in which its nited States capital gains are taxable.

This drawing back of United States source jurisdiction a more realistic and administratively manageable position uld materially simplify the tax rules which we present to e foreigner desiring to invest in our stocks and securities real property. As a general rule, his periodic income

would be subject only to withholding taxes, either at 30 percent or a lower treaty rate, and his capital gains would not be taxed. These results are not altered by extensive trading in stocks or securities, even where the trading is conducted by a United States broker who has discretion to act for him. His real estate investments would be taxed on a net income basis at regular rates if that is preferable, and if his real estate investments are so active or so conducted as to constitute a trade or business on their own account, and consequently taxable in any event at regular rates, any other investments not connected with the real estate would still remain subject only to the usual withholding rates. This simpler, logical pattern would serve to remove income tax barriers which our present structure now presents to the foreign investor.

Estate and Gift Taxation

The United States now presents the foreign individual investor with extremely high rates of estate tax on his United States investment. The estate tax starts at the $2,000 level and the rates climb to 77 percent. For a $100,000 estate in the United States this means an effective rate of 17 percent; for $500,000, 26 percent; for $1,000,000, 29 percent; and for $5,000,000, 43 percent. Such rates are among the highest in the world. Moreover, they are far above the rates we impose on our own citizens, a relationship that is just the reverse of that which generally prevails in other countries, or under our income tax provisions applicable to foreigners. It is thus clear why foreigners regard our estate tax as a real barrier to investment in the United States, and one that very often bars the investment or channels it into an investment made in foreign corporate form.

The bill recognizes the unreality of this existing rate structure. In seeking a lower and more realistic level, the bill uses as a standard the effective rates applied to our own citizens (under conditions where the estate of the United States decedent is eligible for the marital deduction, which permits property passing to a spouse to be untaxed up to one-half the total estate). The bill thus starts with an exemption of $30,000, in place of the present $2,000, and applies a 5 percent rate to the first $100,000 of taxable United States estate, rising to 10 percent thereafter up to $500,000 and then 15 percent up to $1 million. The top rate is 25 percent reached at $2,000,000 (higher than the 15 percent

recommended by the Treasury). The new rate schedule would thus provide effective rates of 3 percent on a $100,000 estate, 7 percent for $500,000, 10 percent for $1,000,000, and 18 percent for $5,000,000.

The bill reshapes the definition of United States property to include bonds of a United States corporation and other debt obligations of a United States obligor, regardless of the physical location of the instruments, and also deposits in United States banks. It thus rounds out the present definitions into a consistent pattern.

As a consequence, the foreign investor would see a far lower scale of United States estate tax rates on his United States investment, and one that compares favorably with a number of foreign countries. Moreover, since many of the European countries grant their citizens, either by statute or treaty with the United States, a credit against their domestic estate tax for the United States tax on the United States estate, the new rates would be largely or entirely absorbed through these credits. As respects our gift tax, the bill would leave applicable to that tax only tangible property located in the United States. Thus, the bill would present the foreigner with a United States estate and gift tax structure vastly different from the present pattern, and one that should in a meaningful way remove barriers that the present pattern now imposes.

Relationship to Tax Treaties

The provisions of the bill provide distinct benefits to foreigners with United States income or assets as compared to present law through the changes that we would be making in our statutory provisions. These changes, at the same time, represent approaches which we think are appropriate in the treaty area as well. Thus, our recent protocol with Germany, and the tentative draft of the Netherlands protocol, reflect in a number of instances the changes in the bill, for example, with respect to the abandonment of the force of attraction and the cut-back in capital gains taxation. And in the past our treaties, in establishing reduced withholding rates for investment income, have thereby also abandoned application to that income of our progressive rates. But treaties are bilateral and

their restrictions reciprocal. These concessions on our part have been matched by similar concessions granted by the treaty country on income our taxpayers derive from that country. A unilateral grant of these concessions on our part, by a statutory revision, might thus seriously affect our treaty bargaining strength and make it more difficult for us to secure similar treaty concessions in the future. At the same time, we desire to remove as quickly as possible any inappropriate tax barriers to the foreign investor now contained in our statutory system. Unilateral action can be prompt and cover all foreigners, while the treaty process takes time and operates country by country.

The bill neatly meets these difficulties by, first, providing prompt action and wide coverage through the unilateral act of a statutory revision, and, second, by retaining treaty bargaining power and flexibility through empowering the President to reinstate the former statutory rules. The President can do so, with respect to the residents of a foreign country, when he finds that the foreign country, if requested by the United States, in a treaty negotiation for example, does not modify its taxes to parallel the changes we are making unilaterally. This power of the President can be applied on a selective basis, country by country and tax provision by tax provision, and need be applied only when he finds that it is in the public interest to do so in each case. Our treaty negotiators will thus be able to point out to a foreign country that our concessions are reversible, so that the negotiations can, in effect, proceed on a reciprocal basis.

Expatriates

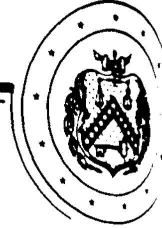
The abandonment of the application of the progressive income tax rates to foreign individuals investing in the United States, the cut-back of other income tax provisions, and the reduction of estate tax rates would establish a distinctly brighter tax picture in the United States for the foreigner. Indeed, the picture is such that Americans may be tempted to become "foreigners" for tax reasons. In 1936, when the United States had similarly abandoned its progressive income tax rates as respects foreigners, it quickly restored them a year later, in part because some Americans had given up their citizenship to take advantage of the change. But to the extent possible we should not permit our tax problems with Americans to act as a bar to

rational revisions in our treatment of foreigners. The proposed bill meets this objective by keeping American expatriates still subject to full United States tax on their United States income and assets, for five years after loss of citizenship in the case of the income tax and for ten years in the case of the estate tax, where the loss of citizenship is motivated by the desire to avoid our taxes. Where such a result is contrary, however, to a tax treaty, the treaty would govern. But since our tax treaties are largely with countries whose tax systems involve rates at significant levels, an expatriate who establishes residence in those countries is not likely to be motivated by a desire to avoid United States taxes.

CONCLUSION

Current developments in our international tax relationships underscore the wide range of policy and administrative issues that are under consideration. Indeed, the continued rapid growth in international investment and trade has brought with it a multitude of varied tax problems that severely strain and press beyond our present framework of concepts and analysis. Intensive legal and economic thought to develop that framework into one adequate to the task -- a framework that embodies a coherent logic capable of expansion to meet new patterns and relationships. In one sense this is a truly formidable task, since each of the countries of the world can claim a voice in the effort. But the ingenuity and insight promised by this host of architects should be viewed as welcome assets. The task for the United States is to see that in this international effort we play a role fitting to our position. We can do so if all of us with a stake in the outcome -- the Government and its officials, our taxpayers with international activities and their advisors, our universities and research institutions and their scholars -- work cooperatively in shaping our contribution.

TREASURY DEPARTMENT



WASHINGTON, D.C.
December 3, 1965

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
CAST IRON SOIL PIPE

On November 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 cast iron soil pipe and fittings for cast iron soil pipe imported from Poland are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

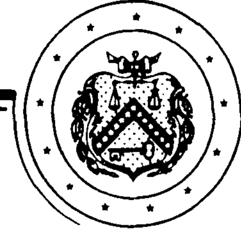
In order to establish the validity of the information, the Bureau of Customs is instituting an inquiry pursuant to the provisions of section 14.6(d)(1)(ii), (2) and (3) of the Customs Regulations.

The information was submitted by the Cast Iron Soil Pipe Institute, Washington, D. C.

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.

Imports of the involved merchandise received during the period April 1, 1965, through October 31, 1965, amounted to approximately $360,000.

TREASURY DEPARTMENT



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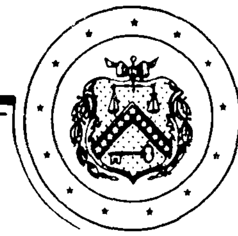


WASHINGTON, D.C.

December 6, 1965

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS FOR THIRD QUARTER OF 1965

During the third quarter of 1965, the net sales of monetary gold by the United States amounted to $95.5 million. Included among these sales is one to Australia in the amount of $8.3 million which is, however, fully offset by a deposit made by the IMF with the United States. This is the first in an expected series of transactions connected with the current round of IMF quota increases in which the burden of gold sales on the U.S. will be alleviated through deposits with the U.S. of equivalent amounts of gold by the IMF.

The total decrease in the U.S. gold stock in the third quarter of 1965 was $123.5 million, including the net sale of $28.0 million worth of gold for domestic, industrial, professional, and artistic uses. For the combined first three quarters of the year, the total decrease was $1,545.4 million of which $81 million was for such non-monetary purposes.

The Treasury's quarterly report, made public today, summarizes U.S. net monetary gold transactions for the first three quarters of Calendar Year 1965. (Table on reverse side.)

F-292

UNITED STATES NET MONETARY GOLD TRANSACTIONS

WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

January 1, 1965 - September 30, 1965

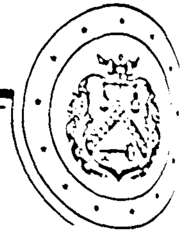
(In Millions of Dollars at $35 per fine troy ounce)

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

	First Quarter 1965	Second Quarter 1965	Third Quarter 1965	Total January 1, - Sept. 30, 1965
Australia	-	-	-8.3 ***	-8.3
Austria	-25.0	-37.5	-37.5	-100.0
Belgium	-39.6	-22.1	-21.0	-82.7
Brazil	-1.0	+28.2	-1.0	+26.2
Ceylon	-	-4.3	-	-4.3
Chile	-1.0	-	-2.6	-3.6
Colombia	*	+30.0	-	+30.0
Costa Rica	-1.3	-0.1	-0.1	-1.5
Egypt	-1.0	-1.0	-1.0	-3.0
France	-482.5	-147.5	-117.2	-747.2
I. M. F.	-	-258.8**	+8.3***	-250.5
Iran	-	-	-2.2	-2.2
Iraq	-	-10.0	-	-10.0
Ireland	-0.4	-1.0	-0.4	-1.8
Italy	-	-80.0	-	-80.0
Morocco	-	-	-5.2	-5.2
Netherlands	-35.0	-	-	-35.0
Panama	-2.7	-	-	-2.7
Philippines	-0.1	-0.1	-	-0.2
Salvador	-1.5	-	-	-1.5
Spain	-90.0	-60.0	-30.0	-180.0
Sudan	-	-7.6	-	-7.6
Switzerland	-37.5	-12.5	-	-50.0
Syria	-0.2	-0.2	-0.2	-0.6
Turkey	-15.7	-2.5	-8.0	-26.2
U. K.	-75.7	+29.4	+132.3	+86.0
Uruguay	-0.1	-0.1	-0.1	-0.3
Yugoslavia	-0.6	-0.5	-0.7	-1.8
All Other	-0.2	-0.1	-0.6	-0.9
Total	-811.1	-558.3	-95.5	-1,464.9

Figures may not add to totals because of rounding. *Less than $50,000
**Public Law 89-31, approved June 2, 1965, authorized an increase of $1.035 million in the quota of the U.S. in the IMF. On June 30, 1965, the U.S. made the required payment of 25% of its quota increase in gold in the amount of $258,750,004.03.
***Sale for IMF quota increase and offsetting deposit by IMF. Total of such mitigated sales through the third quarter was $8.3 million.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, December 6, 1965.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced today that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated September 9, 1965, and the other series to be dated December 9, 1965, which were offered on December 1, were opened at the Federal Reserve Banks on December 6. 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 March 10, 1966		:	182-day Treasury bills maturing June 9, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.910 a/	4.312%	:	97.756 b/	4.439%
Low	98.895	4.371%	:	97.731	4.488%
Average	98.902	4.344% 1/	:	97.741	4.468% 1/

a/ Excepting 3 tenders totaling $874,000; b/ Excepting 2 tenders totaling $200,000
75 percent of the amount of 91-day bills bid for at the low price was accepted
9 percent of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 24,690,000	$ 14,690,000	:	$ 16,974,000	$ 10,974,000
New York	1,576,179,000	761,429,000	:	1,554,054,000	768,854,000
Philadelphia	25,879,000	13,879,000	:	15,544,000	7,544,000
Cleveland	32,086,000	32,086,000	:	47,292,000	32,292,000
Richmond	12,870,000	12,870,000	:	6,695,000	6,695,000
Atlanta	38,338,000	34,538,000	:	31,538,000	20,738,000
Chicago	400,092,000	119,967,000	:	290,135,000	75,135,000
St. Louis	43,478,000	38,978,000	:	23,915,000	13,915,000
Minneapolis	18,399,000	18,399,000	:	10,839,000	10,839,000
Kansas City	27,121,000	26,121,000	:	15,663,000	13,663,000
Dallas	25,885,000	16,635,000	:	13,619,000	9,619,000
San Francisco	133,708,000	111,558,000	:	107,620,000	30,020,000
TOTALS	$2,358,725,000	$1,201,150,000 c/		$2,133,888,000	$1,000,288,000 d/

c/ Includes $251,197,000 noncompetitive tenders accepted at the average price of 98.9[illegible]
d/ Includes $125,262,000 noncompetitive tenders accepted at the average price of 97.7[illegible]
1/ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 4.45%, for the 91-day bills, and 4.63%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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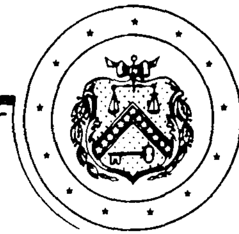
TREASURY DEPARTMENT



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Louis	43,478,000	38,978,000	:	23,915,000	[illegible]3,915,000
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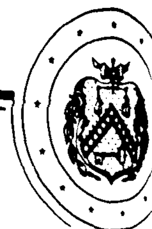


WASHINGTON, D.C.

December 7, 1965

FOR IMMEDIATE RELEASE

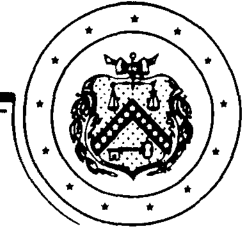
TREASURY DECISION ON TITANIUM DIOXIDE
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that titanium dioxide, pigment grade, from France is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act. A "Notice of Tentative Determination," was published in the Federal Register on May 15, 1965.

All submissions received in opposition to the tentative determination were given full consideration .

Imports of the involved merchandise received during the period July 1964 through May 1965 amounted to approximately $2,500,000.

TREASURY DEPARTMENT



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Mr. Manning, a native of New Orleans who now lives in Alexandria, Virginia, was named Deputy Assistant to the Secretary for Public Affairs in 1958. He came to Treasury from the Maritime Administration where he had served as Public Information Officer since 1950. Before that, he was an information officer with the U.S. Maritime Commission and the United States Forest Service.

Mr. Manning began his professional career as a reporter on The New Orleans States. Before joining the government, Mr. Manning also worked as an advertising copywriter.

Mr. Manning attended Tulane University in New Orleans and later George Washington University in Washington. He is a member of The Press Club.

~~DRAFT TREASURY RELEASE~~ 12/10/65

FOR RELEASE A.M. NEWSPAPERS
FRIDAY, DECEMBER 10, 1965:

Stephen C. Manning, Jr., Receives Award

Treasury Secretary Henry H. Fowler Thursday night presented the Treasury's Meritorious Service Award to Stephen C. Manning, Jr., Deputy Assistant to the Secretary for Public Affairs.

Secretary Fowler made the Award at a party given to honor Mr. Manning, who is retiring from government at the end of this year.

In making the Award, Secretary Fowler said:

> "Stephen C. Manning, Jr., has performed his duties as Deputy Assistant to the Secretary in a manner which reflects credit upon him, upon the Treasury Department, and upon the United States Government. His high professional skill, his wise judgment, and his strong integrity have earned the respect of the three Secretaries of the Treasury under whom he served. His unfailing tact, his warm concern for the welfare of others, and his generosity of spirit have endeared him to all of his associates.
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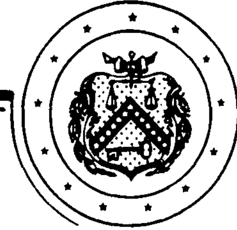
> "Whatever the job was that needed doing, he gave it his judgment, his patience and his time -- often at night and on weekends --

TREASURY DEPARTMENT



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TREASURY DEPARTMENT
Washington

REMARKS BY ARNOLD SAGALYN, DIRECTOR
OFFICE OF LAW ENFORCEMENT COORDINATION,
U. S. TREASURY DEPARTMENT, AND U. S. REPRESENTATIVE
INTERNATIONAL CRIMINAL POLICE ORGANIZATION - (INTERPOL)
BEFORE THE DUKE INTERNATIONAL LAW SOCIETY
DUKE UNIVERSITY SCHOOL OF LAW
DURHAM, NORTH CAROLINA, WEDNESDAY, DECEMBER 8, 1965
11:00 A.M., EST.

THE PURSUIT OF INTERNATIONAL CRIMINALS

The lawyer who likes his legal problems to be challenging will have a field day in handling international criminal cases. He will find legal precedents are often non-existent; that the legal requirements and procedures involved are usually so complex and subject to so many limitations that an aspiring counselor would be better advised to forget Blackstone and study Houdini.

In recognizing the inadequacy of standard legal schooling and expertise, I am reminded of the experience of a wife of an American official who was stationed in an under-developed country. The lights in her house didn't function properly and she called in a local electrician. He arrived laden down with all kinds of tools and equipment and then proceeded to spend the day tinkering futilely to correct the problem. Finally, pointing out that the electrician was getting nowhere, the lady, in great exasperation, explained "Good Heavens, man, can't you use a little common sense!" Whereupon the electrician drew himself up erect and very defensively replied, "Madame, common sense is a gift of the Gods. I have had only a technical education."

In international criminal problems in particular, a little common sense can be more important than two semesters of international law.

To start with, let us look at the problem posed by jurisdiction -- or lack of jurisdiction. In international law, a country has no obligation to surrender a fugitive from justice to another country, unless it has contracted to do so. This is generally by an extradition treaty. The United States has extradition treaties with approximately 77 out of the 127 countries we recognize as being independent states. I say "approximately" because the status of our treaties in some countries is very unclear. This arises out of recent changes in the form of government that have taken place in some countries, particulary former European colonial possessions in Africa.

Moreover, even where a treaty of extradition exists, many crimes are not subject to extradition. It is traditional, for example, that so-called "fiscal offenses" are excluded from extradition. The same is true for offenses of a political, military or religious nature.

As a matter of fact, very few crimes against our Federal laws are extraditable. For nearly all our Federal offenses are based on statutory laws involving interstate commerce, which has no counterpart in other countries. Since the extraditable offenses as a rule must involve double criminality -- that is, be recognized as a crime by both parties to the treaty -- our Federal crimes rarely qualify. A few however, do, such as narcotics trafficking, counterfeiting, and forgery. Tax offenses are not subject to extradition nor with one or two exceptions are crimes of smuggling or those involving security and exchange violations. Mail frauds are another example of an offense which is not a crime in many countries.

Generally speaking the specific crimes which are covered by nearly all of our treaties of extradition and are recognized as extraditable offenses by other countries are: murder; rape; bigamy; (although not in the case of Chile, Bolivia, Denmark or Panama) arson; certain crimes committed at sea, including robbery, sinking or destroying vessels at sea, mutiny and assaults with intent to do bodily harm; robbery; burglary, forgery; counterfeiting of money; embezzlement; larceny, fraud; perjury and kidnapping.

Unless a crime is listed specifically in our treaty, for all practical purposes it is not an extraditable offense. If you think this is getting to look as if the cards are stacked against a government lawyer who would like to extradite a fugitive, you are right. A sovereign state does not take lightly the act of surrendering a person to another country. It has only been within relatively recent times that extradition has become accepted as a necessary form of international cooperation in the control of crime.

As you know, the impetus was started in the 18th Century by France which initiated treaties of extradition with its immediate neighbors and established a well regulated set of rules governing extradition proceedings. By 1868 France had 53 treaties of extradition, while the United States had only 13. England on the other hand, with her tradition of asylum, had only three treaties of extradition.

With the rapid development of international transportation and communication and the concurrent increase in widespread immigration, the spread of extradition treaties greatly accelerated. Although our historical policy of political and religious asylum slowed the process in the United States until well into the 1900's, the need to deal with common law criminals led the United States to join the world trend towards additional treaties of extradition.

Compared with other countries, however, the legal safeguards protecting persons residing in the United States are unusually strong and restrictive. Most countries for example, will arrest and hold a person on the basis of a foreign warrant of arrest or even just at the request of a law enforcement official. This is not true in the United States, however. We require a warrant of arrest to be obtained in this country before any arrest can be made.

Another legal booby trap against the extradition of a wanted fugitive is triggered if he turns out to be a national of the country. Usually, countries will not surrender their own nationals to another state. Insofar as our own policy on this is concerned, it varies with the individual treaty. Some prohibit extradition of United States nationals, some require it while other treaties leave it optional.

The legal assistance provisions of our treaties were obviously drawn by lawyers who would never qualify as invitees to an International Cooperation Year Conference. Even when the crime is subject to a treaty and there is no problem of nationality, the legal processes involved in securing the extradition of a fugitive are extremely cumbersome and time consuming. Only 30 of our treaties provide for United States assistance in the extradition of a fugitive. In most cases the country with whom we have a treaty must hire its own lawyer to handle the extradition processes and must tilt with the legal windmills on its own. I should add however that our government faces problems and built-in obstacles which are equally frustrating.

Before you start to feel sorry for the international lawyer, consider the plight of the police officer who has to locate the fugitive and find the criminal evidence required before the foreign court will authorize the extradition. No matter how outrageous the crime might be, no country will permit a foreign police officer to follow a criminal in hot pursuit across its border or to make an arrest within its territory. Yet what is our detective to do in order to track down a fugitive or gather evidence and information that he needs that can only be found in a foreign country?

Despite what you may see on television, in the international aw enforcement fraternity we never say "UNCLE." Instead e call in Interpol - or the International Criminal Police rganization, as it is formally titled. For just as the eed for international cooperation led to treaties of extradition, o the problem face by law enforcement officers inevitably ed to the organization of an international police mechanism o promote assistance between police in different countries and rovide for the mutual exchange of information and intelligence bout common crimes and criminals.

With the help of INTERPOL, we can pick up the trail of the ugitive and locate him so that his arrest and extradition can be ecured. In addition, the resources and facilities of the olice in each Interpol member country can be drawn upon to ather information and evidence which may be needed.

Essentially, INTERPOL is a cooperative international sociation which enables the police of member countries to change information and obtain assistance on criminal matters

directly, without the loss of time involved in going through diplomatic channels. Its Secretariat at Paris serves as a focal point and control center for an international police communications network stretching around the world. It operates a central criminal intelligence and information exchange for Interpol countries, and its central files contain records on more than 150,000 known international criminals.

Membership in INTERPOL must be by application from the appropriate head of government of a country. Each country upon joining INTERPOL designates a National Central Bureau to serve as its representative in all Interpol matters affecting the country. No individual police department or law enforcement agency can obtain membership. Participation by the law enforcement agencies of a country must be through its designated Interpol representative, and any requests for information or assistance to the Interpol Secretariat in Paris or to Interpol representatives in foreign countries must clear through the Interpol bureau of the country concerned.

Today, 95 countries are members of INTERPOL and the Organization includes almost every major country in the world, with the exception of the Soviet Union, Mainland China and their satellites.

The International Criminal Police Organization was founded in 1923 when delegates representing 20 countries and territories met in Vienna and established the "International Criminal Police Commission." The outbreak of World War II disrupted its activities, but in 1946 the international police agency was reconstituted. The headquarters was moved to Paris, where it remains today. In 1956 the title was changed from the International Criminal Police Commission to its present name.

The United States first joined INTERPOL in 1938 by an Act of Congress and was originally represented by the Federal Bureau of Investigation. In 1950, the F.B.I. withdrew from INTERPOL and formal U. S. membership ended. However, informal relations were maintained by the Treasury Department's Bureau of Narcotics, Bureau of Customs, and the U. S. Secret Service.

In view of our major international enforcement responsibilities in the field of narcotics trafficking, counterfeiting and smuggling, the Treasury Department then offered to assume responsibility for U. S. membership, whereupon, Congress amended the Enabling Act in 1958 to permit the Attorney General to designate the Treasury Department as U. S. Representative for INTERPOL. The U. S. has participated as a full member ever since.

I want to stress that INTERPOL'S effectiveness depends entirely on the voluntary nature and cooperative services of its members. Interpol has no investigative force or police authority of its own.

There is no obligation on the part of any country to comply with any request for information or assitance. If for any reason the recipient Interpol bureau decides that a request is improper or not permitted under its own laws -- or that it is otherwise unwilling to obtain the information requested -- the matter ends. Each country is the sole arbiter as to whether or not a request for assistance, either from the Secretariat in Paris or from a member country directly, is processed; and any investigation made is performed by its own police or responsible investigative branch.

Unlike most countries, which have national, centralized police bureaus whose jurisdiction extend down to the local communities, the United States has thousands of law enforcement agencies with autonomous jurisdiction over local criminal matters. Therefore, when a request from a foreign country comes into Treasury's INTERPOL office, it is referred for action to whatever agency has jurisdiction. It may be a Treasury investigative agency, the New York City Police Department or the Alameda, County, California Sheriff's office or some other law enforcement agency. Our Interpol Bureau serves largely as a clearing-house and depends on the agency to whom we transmit the Interpol communication to make whatever investigation may be necessary.

Under the Interpol Constitution, all matters of political, military, religious or racial nature are strictly prohibited. Any request for information or assistance which relates to one of these proscribed categories cannot be transmitted through the Interpol mechanism, or in anyway involve the Organization.

For instance, not long ago an aircraft carrying a large shipment of military firearms and equipment was apprehended in a Mediterrean country. As the arms traffickers involved in this case were apparently motivated by political considerations, the crime involved was considered outside INTERPOL'S proper scope and the parties concerned were notified accordingly. Later on, it was learned that a person representing himself to be a foreign representative of INTERPOL interrogated one of the principals involved in a European country. This was brought to the immediate attention of the chief Interpol official concerned. His investigation showed that the Interpol agent was unknown either to him or to the country whom he was purported to represent, and steps were taken to assure against any further mispresentation or the use of INTERPOL'S name in the matter.

It is largely because INTERPOL has been so careful to avoid being drawn into such proscribed areas that it has enjoyed a unique acceptance and prestige by its diverse international membership. Its surprising success in maintaining its professional and impartial criminal role has made it possible for delegates from India and Pakistan, Israel and Egypt, Indonesia and Malaysia to meet and work together amicably in a common cause -- the suppression of international crime.

In addition to its function as an international criminal information exchange and communications center, INTERPOL organizes international conferences on criminal problems and publishes numerous reports and studies. Once a year the Organization convenes a General Assembly of all its members to discuss matters of mutual interest and decide on new programs and activities designed to strengthen their common efforts against international crimes. The following items taken from recent Interpol agendas depict the nature and range of subjects taken up at the annual General Assemblies: The Illicit Traffic in Narcotic Drugs; International Traffic in Gold and Diamonds; International Forms of Traffic in Women; The Study of Crime Prevention Bureaus; Air Police Problems; The Restitution of Property to the Victim of an Offense; Thefts Committed During Air Transport; The Use of Data-Processing Methods in Criminal Records; Counterfeiting of Currency and Gold Coins; International Cooperation on the Study of Fingerprinting Methods; The Identification of Firearms; and the Development and Use of Criminal Intelligence.

At the International conference held earlier this year in Rio de Janiero, the United States delegation drew the attention of the other Interpol countries to the increasing number of international frauds which have been coming to light. These fraudulent activities, which pose extremely difficult problems in detection as well as suppression, include such things as foreign-based "boiler rooms" which sell worthless or near worthless securities to Americans at grossly excessive prices; the sale of fraudulent certificates of deposit by banks located in other countries, which in reality are only paper institutions without assets; the issuance of performance bonds or other forms of re-insurance by foreign insurance companies, which turn out to be worthless when a claim is presented.

Heretofore, such swindles were limited by the ability of the operator to make personal contacts with his victims. With the ease of rapid international travel and communication, however, these international fraudulent schemes are reaching hundreds and even thousands of victims in this country. In some cases the principal was never physically present in the victims' country and these international swindles are raising many serious legal problems, such as: Was the crime committed in the country where the principal is a resident or where the victim resides? Which country conducts the investigation and where is the culprit to be charged and tried?

This is an area where INTERPOL can provide invaluable assistance through its cooperative facilities and perhaps initiate studies leading to needed legal instruments for coping with this kind of legal no-man's land.

In dealing with major criminal problems that extend beyond our own borders, the United States has additional and special resources of its own apart from INTERPOL. Our responsibility for protecting our citizens against illicit trafficking and smuggling in of narcotic drugs, the importance of safeguarding our money against foreign counterfeiting and other serious threats abroad has led to the establishment of liaison offices in key countries. The Treasury Department, for example, has representatives from its criminal investigative agencies assigned overseas to work with police authorities in France, Italy, Turkey, Lebanon, Germany, England, Mexico, Japan, Hong Kong and Thailand. Similarly, the FBI maintains liaison offices in designated countries to facilitate its own investigative responsibilities.

The work of our American agents overseas, in cooperation with the police of the countries in which they are stationed, has enabled us to get information which has led to the breaking up of many important criminal enterprises and to the conviction and jailing of some of our country's most dangerous criminals.

The late Vice-President and Senator, Alben Barkley, was fond of telling a story about a Southern minister who delivered a sermon on the subject of hate. He dwelt at great length on the evils of hate, how it corroded the soul, turned man's heart black and left his spirit bleak and bitter.

Finally, he turned to his parishioners and inquired:

"Now, is there anyone in this entire congregation who can tell me that he does not hate any man, that he has no enemies in the world?"

There was a great silence. Then at the back of the hall an old, bent man arose feebly from his seat and in a creaky voice called out, "I can."

The preacher was ecstatic. "How old are you, my friend?"

"97," the old man replied.

"Isn't that wonderful," the preacher exclaimed. "Here is a man who has lived 97 years and who can stand up in God's church and before his fellow men say that he has no enemies in the world! Now, my friend, I would like you to tell me and everyone else in this great congregation how it is that you have lived to be 97 and have no enemies."

The old man looked around the congregation slowly and then with a note of triumph in his voice cried out, "I've outlived the sons-of-bitches!"

I don't expect that any of us will see the day when all men an say that they have no enemies. Until them, as long as men prey on their fellow men, the law enforcement officer -- ocal and international -- will be needed to protect society gainst its enemy, the criminal.

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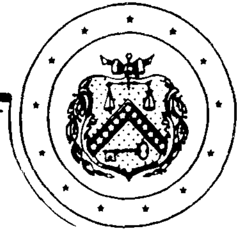
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 8, 1965

FOR IMMEDIATE RELEASE

INDUSTRIAL PAYROLL SAVINGS COMMITTEE
MEETS DECEMBER 10 WITH SECRETARY FOWLER

The U. S. Industrial Payroll Savings Committee, comprised of leading American industrialists and business leaders, meets in Washington on Friday, December 10, to review program accomplishments in 1965 and to set goals and make plans for the 1966 campaign.

Secretary of the Treasury Henry H. Fowler and other Administration leaders will meet with the 23-man Committee. Lynn A. Townsend, President of Chrysler Corp., is to be installed as 1966 Chairman, succeeding 1965 Chairman Dr. Elmer W. Engstrom, President of Radio Corporation of America.

Dr. Engstrom is to preside over the meeting, in the Benjamin Franklin Room of the State Department's Diplomatic Suite.

Other speakers on the day's program are Under Secretary of the Treasury for Monetary Affairs, Frederick L. Deming, and William H. Neal, National Director of the Savings Bonds Division of the Treasury Department.

During the past year, the Committee, members of which led Payroll Savings activities in the major industrial areas of the country, spearheaded a "Practical Patriots" drive in which more than 1,250,000 new Payroll Savers were added -- 180,000 of whom were within companies of the Committee members.

A list of the 1965 Committee and of the new members who will serve on the 1966 Committee is attached.

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U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE FOR 1965

Dr. Elmer W. Engstrom, CHAIRMAN
President
Radio Corporation of America
New York, New York

William M. Allen
President
The Boeing Company
Seattle, Washington

O. Kelley Anderson
President
New England Mutual Life
Insurance Company
Boston, Massachusetts

Orville E. Beal
President
The Prudential Insurance
Company of America
Newark, New Jersey

Eugene N. Beesley
President
Eli Lilly & Company
Indianapolis, Indiana

F. L. Byrom
President
Koppers Company, Inc.
Koppers Building
Pittsburgh, Pennsylvania

Henry Z. Carter
President
Avondale Shipyards, Inc.
New Orleans, Louisiana

Gilbert M. Dorland
President
Nashville Bridge Company
Nashville, Tennessee

Robert E. Garrett
President
United States Pipe and
Foundry Company
Birmingham, Alabama

William P. Gwinn
President
United Aircraft Corporation
East Hartford, Connecticut

Wade N. Harris
Chairman of the Board
Midland-Ross Corporation
Cleveland, Ohio

Daniel J. Haughton
President
Lockheed Aircraft Corporation
Burbank, California
(Representing Los Angeles)

Howard Holderness
President
Jefferson Standard Life
Insurance Company
Greensboro, North Carolina

(MORE)

A. F. Jacobson
President
Northwestern Bell Telephone Co.
Omaha, Nebraska

William H. Kendall
President
Louisville and Nashville
Railroad Company
Louisville, Kentucky

Robert S. Kerr, Jr.
Director
Kerr-McGee Oil Industries, Inc.
Oklahoma City, Oklahoma

Walter K. Koch
President
The Mountain States Telephone
and Telegraph Company
Denver, Colorado

David S. Lewis
President
McDonnell Aircraft Corporation
St. Louis, Missouri

Carl O. Lindeman
Chairman of the Board
The Pacific Telephone and
Telegraph Company
San Francisco, California

Robert S. Macfarlane
President
Northern Pacific Railway Co.
St. Paul, Minnesota

James F. Oates, Jr.
Chairman of the Board
The Equitable Life Assurance
Society of the U. S.

William J. Quinn
President
Chicago, Milwaukee, St. Paul
and Pacific Railroad Co.

Alfred P. Ramsey
President
Baltimore Gas and Electric Co.
Baltimore, Maryland

Stuart T. Saunders
Chairman of the Board
The Pennsylvania Railroad Co.
Philadelphia, Pennsylvania

Sidney Shuman
President
Reed Roller Bit Company
Houston, Texas

Robert S. Stevenson
Chairman
Allis-Chalmers Manufacturing Co.
Milwaukee, Wisconsin

Fladger F. Tannery
Executive Vice President
PepsiCo, Inc.
Dallas, Texas

(MORE)

Lynn A. Townsend
President
Chrysler Corporation
Detroit, Michigan

MEMBERS-AT-LARGE

Frank R. Milliken
President
Kennecott Copper Corporation
New York, New York

Harold S. Geneen
President and Chairman
International Telephone and
Telegraph Corporation
New York, New York

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE FOR 1966

Lynn A. Townsend, CHAIRMAN
President
Chrysler Corporation
Detroit, Michigan

Allen G. Barry
President
New England Telephone & Telegraph Company
Boston, Massachusetts

William B. Bergen
President
The Martin Company
Baltimore, Maryland

Harold Burrow
Tennessee Gas Transmission Company
Houston, Texas

Tom A. Finch
President
Thomasville Furniture Industries, Inc.
Thomasville, N. C.

A. P. Fontaine
Chairman and Chief Executive Officer
Bendix Corporation
Detroit, Michigan

James M. Hait
President
FMC Corporation
San Jose, California
(Representing San Francisco)

Wade N. Harris
Chairman of the Board
Midland-Ross Corporation
Cleveland, Ohio

John A. Hill
President
Aetna Life Insurance Company
Hartford, Connecticut

Logan T. Johnston
Chairman of the Board
Armco Steel Corporation
Middletown, Ohio
(Representing Cincinnati)

W. F. Joyce
Senior Vice President
Texas Instruments, Inc.
Dallas, Texas

David S. Lewis
President
McDonnell Aircraft Corporation
St. Louis, Missouri

Robert D. Lilley
President
New Jersey Bell Telephone Co.
Newark, New Jersey

(MORE)

Robert S. Macfarlane
President
Northern Pacific Railway Co.
St. Paul, Minnesota

ames F. Oates, Jr.
hairman of the Board
he Equitable Life Assurance
Society of the U. S.
ew York, New York

illiam J. Quinn
resident
hicago, Milwaukee, St. Paul
and Pacific Railroad Co.
hicago, Illinois

illard F. Rockwell, Jr.
resident
ockwell Standard Corp.
ittsburgh, Pennsylvania

tuart T. Saunders
hairman of the Board
he Pennsylvania Railroad Co.
hiladelphia, Pennsylvania

. J. Skutt
hairman of the Board
utual of Omaha
maha, Nebraska

udolph Smith
resident
olorado Fuel & Iron Corp.
enver, Colorado

Robert S. Stevenson
Chairman
Allis-Chalmers Manufacturing
Company
Milwaukee, Wisconsin

Walter W. Straley
President
Pacific Northwest Bell
Telephone Company
Seattle, Washington

MEMBERS-AT-LARGE

Dr. Elmer W. Engstrom
President
Radio Corporation of America
New York, New York

Frank R. Milliken
President
Kennecott Copper Corp.
New York, New York

Harold S. Geneen
Chairman and President
International Telephone and
Telegraph Corporation
New York, New York

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 fro all taxation now or hereafter imposed on the principal or interest thereof by any Sta or any of the possessions of the United States, or by any local taxing authority. Fo purposes of taxation the amount of discount at which Treasury bills are originally so by the United States is considered to be interest. Under Sections 454 (b) and 1221 (of the Internal Revenue Code of 1954 the amount of discount at which bills issued her under are sold is not considered to accrue until such bills are sold, redeemed or oth wise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issue hereunder need include in his income tax return only the difference between the pric paid for such bills, whether on original issue or on subsequent purchase, and the am 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, presc 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

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 b applied for, unless the tenders are accompanied by an express guaranty of payment b an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Res Banks and Branches, following which public anouncement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tende will be advised of the acceptance or rejection thereof. The Secretary of the Trea expressly reserves the right to accept or reject any or all tenders, in whole or i part, and his action in any such respect shall be final. Subject to these reserva tions, 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 Fede Reserve Bank on December 16, 1965 (16), in cash or other immediately available f or in a like face amount of Treasury bills maturing December 16, 1965 (17). Cash and exchange tenders will receive equal treatment. Cash adjustments will be made f differences between the par value of maturing bills accepted in exchange and the i price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, December 8, 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 December 16, 1965, in the amount of $[illegible],20[illegible],55[illegible],000, as follows:

91-day bills (to maturity date) to be issued December 16, 1965, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated September 16, 1965, and to mature March 17, 1966, originally issued in the amount of $1,005,460,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated December 16, 1965, and to mature June 16, 1966.

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, December 13, 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 decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

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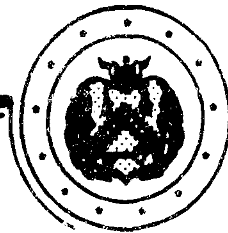
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 8, 1965

R IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders r two series of Treasury bills to the aggregate amount of ,200,000,000, or thereabouts, for cash and in exchange for easury bills maturing December 16, 1965, in the amount of ,202,556,000, as follows:

91-day bills (to maturity date) to be issued December 16, 1965, the amount of $ 1,200,000,000, or thereabouts, representing an iitional amount of bills dated September 16, 1965, and to ure March 17, 1966, originally issued in the amount of ,005,460,000, the additional and original bills to be freely erchangeable.

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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 iers. Others than banking institutions will not be permitted to nit tenders except for their own account. Tenders will be received nout deposit from incorporated banks and trust companies and from ponsible and recognized dealers in investment securities. Tenders n others must be accompanied by payment of 2 percent of the face ınt of Treasury bills applied for, unless the tenders are ompanied by an express guaranty of payment by an incorporated bank rust 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 Bank on December 16, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 16, 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

FOR RELEASE A.M. NEWSPAPERS
THURSDAY, DECEMBER 9, 1965

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE
THE U. S. COUNCIL OF THE INTERNATIONAL CHAMBER OF COMMERCE
AT THE HOTEL PIERRE, NEW YORK, NEW YORK
WEDNESDAY, DECEMBER 8, 1965, 6:30 P.M., EST

Over recent years we have witnessed a growing awareness in this nation that there is no serious problem before us, no important challenge -- whether it be economic, social or political -- whose solution does not require joint effort by both the public and private sectors of our national life. We have indeed discovered that our progress as a nation rests upon our success in dovetailing both public and private policies toward a common national purpose. We have learned that neither the public nor private interest can be served at the expense of the other -- that we cannot really serve one without serving the other.

Today, we are also beginning to see more clearly that this same inherent interdependence -- interdependence which has become a palpable fact of life -- exists on the international level as well. In particular, we have all come to a far greater appreciation of the importance of the private sector in our nation's role as a leader in world affairs -- expecially of the importance of our multi-national companies, which are based in the United States but which also conduct extensive production and marketing operations in other countries. I am sure a number of these corporations are represented here tonight.

These corporations -- these mighty engines of enlightened Capitalism -- have contributed substantially to the economic growth of the Free World since World War II, and it is difficult to overstate their importance to continued growth in the Free World economy -- particularly among the less developed nations.

In the future -- much more even than in the past -- their contribution, their role in a growing world economy, will depend critically upon how successfully we can reconcile national interests in both base and host countries with their own private interests.

But the harsh reality is that, at times, they seem to be moving -- not on complementary paths to a common purpose -- but on a collision course. And today, more than ever, we can ill afford such collisions -- today, more than ever, we must all recognize that the reconciliation of national interests and those of multi-national corporations is essential to a future with freedom and a healthy, dynamic economic environment for the Free World.

The expansion of international trade, the freedom of money to flow across national boundaries, the welcome extended to foreign business units, the stimulating effects of broadened competition, and the spread of technical and organizational knowledge -- these hallmarks of multi-national business have helped to bring an expanding, more integrated and efficient structure to the West since World War II.

And there is no doubt that, given these same conditions, plus some reasonable assurance against state confiscation, state competition and discrimination against foreign enterprise, the multi-national corporations of the West can make significant contributions to the emergence of viable and free economic societies in the less developed countries.

But certain facts must be faced. In many of the less developed countries, the rising tide of nationalism mixed with state intervention or discrimination in varying degrees has created an uncongenial atmosphere for multi-national private business. Indeed, the same trend is evident in some of the developed countries where multi-national companies have become well established.

So today -- with multi-national business at an all-time peak, and the multi-national corporations of the developed countries who are members of the Organization for Economic Cooperation and Development possessed of the greatest potential for international economic development in history -- the dangers and opportunities match each other in equal challenge.

There is no single, simple way to minimize or avoid the dangers and to expand the opportunities. It is, however, clear that progress can only come from a growing understanding of each other's needs and problems by political leaders in base and host countries and the corporate bodies of multi-national units. And in the context of growing understanding, both sides must work to discover and broaden the areas of common purpose as well as to narrow the areas of conflict.

Let us look, first, at some of these areas of common purpose from the standpoint of the United States and the multi-national companies based here.

We can gather some idea of the national public interest of the United States in multi-national corporations from the simple fact that at the end of last year the book value investment of U. S. companies in foreign branches and subsidiaries amounted to $44.3 billion -- of which about $35 billion was in manufacturing, petroleum, and mining and smelting.

In this enormous extension of U. S. corporate business on a multi-national scale much more is involved than the economic advantages of investors of capital and the return of profits -- although it must never be forgotten that this is always the controlling rationale.

Multi-national companies are playing an increasingly important role in the expansion of world trade, in serving the interests of the less developed countries, and in proving capital, knowledge, industrial know-how and useful employment in countries other than the base country, as well as increased employment, assets and profit returns for the base country.

For this nation, therefore, they have not only a commercial importance -- but a highly significant role in a U. S. foreign policy that has met with general approval by the Atlantic countries. Since World War II, every President, practically every Congress, and numerous public and lay leaders of national and international reputation have emphasized the importance to national interests of the role of these private companies operating on a multi-national basis.

For example, the various foreign aid enactments beginning with the Marshall Plan in 1948 have all stressed the importance of promoting U. S. private investment abroad in their provisions for investment guarantees and other means of encouraging foreign investments by American business.

The importance of the foreign operations of U. S. based companies in lending momentum to the economic and industrial development of the Free World during the reconstruction of Western Europe and Japan, and now in the continents of Asia, Africa and Latin America, has been acknowledged for some years.

And we are all equally aware -- those of us in government as well as those in private business -- of the long-term importance to the United States of investment income from and participation in the industrial development of other nations by U. S. private corporations.

For example, from 1950 through 1964 receipts of earnings, interest payments, management fees and royalties by the U. S. in direct investments overseas totaled some $37.3 billion; this compares with the $20.4 billion capital outflow from direct investment abroad in the same period. Last year, in 1964, our receipts from this investment amounted to $4 billion, second only to our receipts from exports as a favorable factor in our balance of payments. In fact, we count upon rising returns from direct investment overseas to serve as one of our most consistent elements of balance of payments strength in the months and years ahead. Furthermore, additional exports have been generated in the form of capital equipment, materials, parts and services required to export these investments.

Recipient countries as well can receive abundant benefits from the operations of these corporations -- benefits in the form of fresh investments of capital, of infusions of new or additional know-how, techniques and skills, of new or additional jobs and products, of heightened productivity and enlarged export capacity.

In short, modern multi-national corporations have the capacity to contribute substantially to rising incomes nd economic progress in both the home country and in foreign lands -- and thus to better relations between all oncerned not only in the economic sphere, but in the political nd social spheres as well.

Indeed, there is much to support the thesis of a distinguished American industrial leader, Mr. Roger Blough, Chairman of the Board of the United States Steel Corporation who remarked recently that the multi-national corporation "may ultimately prove to be the most productive economic development of the twentieth century for bringing the people of nations together for peaceful purposes to their mutual advantage . . . an instrument which could do more to bind nations together than any other development yet found by man in his pursuit of peace."

But while -- as I have made clear -- this nation and all nations concerned have a great deal to gain from the endeavors abroad of American-based multi-national corporations, let no one think it is all a one-way street. In particular, let no one forget the crucial importance to the multi-national corporation of a United States government that commands world respect for its economic and military prowess as well as for its commitment to the highest human ideals -- a United States government whose political, diplomatic and military strength is fully commensurate with its role as leader of the Free World.

For let us all understand that the United States government has consistently sought -- and will continue to seek -- to expand and extend the role of the multi-national corporation as an essential instrument of strong and healthy economic progress throughout the Free World.

The government has, first of all, sought -- and will continue to seek -- in countless ways to enlarge the freedom of opportunity for multi-national firms operating overseas -- by diplomatic efforts to allay fears of foreign domination and exploitation, as well as to remove local barriers to foreign private investment, by programs aimed at deepening and widening understanding in less developed countries of the workings of a privately-oriented economy, and by programs to encourage and directly assist prospective investors in foreign countries, and by other efforts far too numerous to mention here.

Equally important -- and far too little appreciated -- is the crucial extent to which the successes of our multi-national corporations abroad have depended -- and must continue to depend -- upon the success of our government in maintaining a viable international monetary system to facilitate stable exchange rates and a free flow of funds, in lowering trade barriers and in pursuing peace.

Indeed, while it is most difficult to quantify, it is also impossible to overestimate the extent to which the efforts and the opportunities for American firms abroad depend upon the vast presence and influence and prestige that America holds in the world. It is impossible to overestimate the extent to which private American ventures overseas benefit from our commitments -- tangible and intangible -- to furnish economic assistance to those in need and to defend the frontiers of freedom.

In fact, were we to contemplate abandoning those frontiers and withholding our assistance -- as some continually suggest -- I wonder not whether the opportunities for private American enterprise abroad would wither -- I wonder only how long it would take.

Now, let us look at some specific areas of real or potential conflict between national interests and the multi-national corporation -- conflict which again requires that all sides concerned exert every effort to better understand and appreciate each other's problems and needs.

I think it a fair assessment of the current situation to say that more than any time since the end of World War II the rising tide of nationalism in both developed and less developed countries is generating public attitudes and policies that could obstruct the growth and development of the multi-national corporation or halt the movement toward an atmosphere of greater freedom that is conducive to their proliferation.

There are signs in quite a few developed countries that their political leaders believe they have a diminishing need for foreign capital, technology or management. In a number of the less developed countries, new political leaders manifest a distinct preference for government-to-government grants and loans for local or state-owned enterprises over the entry of foreign private direct investment. And as the number and size of foreign private firms within the borders of both developed and less developed nations continues to increase, conflicts between the policies of these countries and guest corporations often follow -- conflicts that often lead to tensions between the host countries and our government and that often give rise to a growing host of regulations or laws that discriminate against foreign firms.

A brief review of some of the specific areas where thoughtful and temperate policies by both government and business are necessary to minimize potential conflict between national interests and multi-national business would include at least five:

First, the area of trade. It is, I think, fairly clear that the movement toward the general lowering of trade barriers and the creation or enlargement of regional marketing areas -- encompassing many countries in which goods move relatively freely -- are conducive to the infusion of capital, initiative and technology from external as well as internal sources. The multi-national corporation, therefore -- as well as the Free World economy generally -- has a large stake in the success of the Kennedy Round as well as of efforts to enlarge marketing or regional groupings in which many countries dispense with trade and customs barriers. And failure in these efforts and these negotiations will bring the multi-national corporation hard up against national or larger regional interests seeking self-containment and self-sufficiency and turning away from the post-war movement toward increasing interdependence.

Second, there is the fact that both the entry and the operations of a multi-national corporation into a given country are subject -- not to some supra-national authority -- but to the laws of the country where they operate. Around this simple, inescapable fact centers a vast area of potential conflict -- conflict which can be minimized only by applied good will, mutual understanding and equal treatment under the law for foreign and domestic enterprises.

Third, in the less developed countries perhaps the most serious deterrent to the multi-national private corporation is the specter of state confiscation and state operation of competitive units. This is, as you know, a specter not easily exorcised. But the United States government -- together with other governments and with appropriate international agencies -- must try to bring home to governments and peoples of less developed countries by word and deed the truth that the multi-national corporation cannot and will not play its proper role in developing countries in an institutional environment that accepts state confiscation or state operation of competitive units on an unrestricted basis as a national policy.

Fourth, there is the troublesome area of conflict between national interests and the multi-national corporation that stems from decisions resulting in the transfer of production and employment from one country to another. These decisions -- involving a loss of jobs or exports -- can often have serious political repercussions. Obviously, to avoid these repercussions is in the best interests of all concerned -- and the only way to avoid them is for both the management and the public officials concerned to work out some means for minimizing the adverse impacts of these transfers.

Fifth, there are the necessities that the international monetary system imposes upon governments to maintain sufficient reserves of gold and foreign exchange or credits to meet external payment requirements. Today -- as you are well aware -- this is a subject of considerable current concern to our multi-national corporations who, since early February of this year, have been asked to do their share in meeting an urgent national challenge -- the challenge of bringing our balance of payments into early and sustained equilibrium. But before turning to this matter in particular, let me say that -- in all these areas of potential conflict -- something more is needed if national interests and multi-national corporations are to live harmoniously together. We must, I think, be continually searching for an improved institutional environment.

In this search, we from the United States naturally look for guidance into our own experience with the gradual submergence of tension between our individual states and our interstate corporations. That experience -- beginning with the commerce clause in the Constitution -- is one of a constant and successful effort to insure the fullest possible freedom of commerce within our borders. That experience -- embodied in a network of laws to protect commerce from abuse by public authority -- has enabled the interstate corporation to become the great force that it is in the U. S. economy.

This process was feasible because the people and their representatives felt that the interstate corporations better served the needs and desires of the society than if sole reliance were placed on local capital, know-how and organizational initiative.

Equally important was the fact that the management of interstate corporations -- exercising good long range corporate planning principles -- developed a tradition and practice of good corporate citizenship in the areas where the company conducted substantial producing or selling operations.

This system has produced, in an atmosphere relatively free from any imperialistic overtones of the more powerful states, a great measure of economic development, reasonably well balanced between regions, and a considerable degree of political unity.

What carry-over value, if any, does this experience have for creating a better institutional environment for the multi-national corporation as it deals with nationalism and national sensibilities?

Let me simply suggest a few possibilities.

First of all, it is essential that there be developed and observed a Code of Good Corporate Citizenship on the part of multi-national corporations.

Basic to that Code must be a two-way flow of accurate information between the main office and its outlets abroad -- so that the corporation can avoid the host of misunderstandings, that can arise from faulty channels of communication.

Of great importance is the employment of citizens of the host country in line management, accounting, marketing and technical areas as well as lesser positions. The upgrading of citizens of the host country to positions leading to advancement and influence in the top management of the parent is equally significant, giving the company the flavor of a truly international rather than merely a multi-national firm. These policies must place a high premium on training.

Somewhat related is the widening of the corporate research base, wherever practicable, through the foreign subsidiary in cooperation with local educational institutions.

Worthy also of full exploration are the possibilities of ownership participation. Mr. Frederick Donner, Chairman of the General Motors Corporation, put it this way: "Hasn't the time come when thought should be given to making the

ownership of these international corporations also truly international? In other words, should it not be possible for investors in the countries in which international corporations operate plants to participate directly in the ownership of these international corporations?"

This does not necessarily mean direct local participation in the ownership and earnings of the local subsidiary. It may take the form of ownership of stock of the parent, which Mr. Donner envisaged as more desirable in cases where unified ownership interest is necessary because of the close business relationships of parent and subsidiary or subsidiaries of the same parent.

A keen sense and practice of good public relations will disclose many other attributes of good corporate citizenship and measures that avoid offense to national sensibilities. We have already referred to transfers of production. Some consideration should also be given to avoiding acquisitions or ventures, particularly in developed countries, which tend to cause the proportion of foreign investment in a key sector of industry or trade to raise questions of economic or political self-determination.

These are but a few of the many phases of good corporate citizenship in which long-range corporate planning -- strategic and tactical -- can play a vital role for the multi-national corporation.

Policies of the base or home country government of the parent in a multi-national complex can supplement these efforts. The home government can eschew utilizing the multi-national company as an instrument of national policy to obtain political influence in foreign activities. It can insure firms against losses from political disturbances and currency devaluations which sometimes invite corporate intervention in political affairs. It can review its tax laws and regulations to make sure there are incentives for private investment in less developed countries where external capital flows are badly needed. It can make sure that there are no legal obstacles to joint ventures with nationals of the host country where that is an appropriate business course.

But in the final analysis, the prospect for an improving institutional environment for multi-national companies depends primarily on the willingness of potential host countries to forego voluntarily as a matter of national policy the exercise of extremes of nationalism, even though within the bounds of national sovereignty.

A current case in point is the International Convention on the Settlement of Investment disputes between States and Nationals of other States, sponsored by the World Bank and signed last August by the United States. This convention is aimed at promoting economic growth -- particularly in the developing countries -- through private investment, by helping create an atmosphere of mutual confidence between private foreign investors and countries which wish to attract a larger flow of private international capital. This convention will go into effect as soon as it has been ratified by the required 20 member governments of the World Bank.

Let me also note an interesting suggestion -- certainly worthy of exploration -- put forth last summer in the report of the Advisory Committee on Private Enterprise in Foreign Aid, headed by Mr. Arthur Watson, Chairman, IBM World Trade Corporation. The Committee recommended -- and I quote -- "that the United States Government lend its full support to the principle of an investment code under international sponsorship; and that as part of such a code the United States be prepared to accept a reasonable statement of the obligations of investors, to accompany a statement of the obligations of host countries."

The Committee felt that, while such a move could offer no final guarantees to the hesitant investor, it would improve the general climate for private investment abroad and would offer large advantages to less developed countries.

This country is today engaged in two sets of negotiations whose successful outcome hinges upon the willingness of all to forego excessive nationalism -- the Kennedy Round of Trade talks and the preliminary negotiations now underway toward improving the international monetary system.

For its part, this nation is committed to the fullest reductions possible of all trade barriers among the developed nations. We have demonstrated -- and will continue to demonstrate -- that commitment in the Kennedy Round. We accept the fact that there must be give and take -- and we are willing to do our share of giving. But others must do the same.

We have also demonstrated our commitment to insuring a world monetary system capable of continuing to meet the needs of expanding world trade and commerce over the next twenty years and more with the same success that it has displayed over the past twenty years.

Indeed, our efforts in these areas reflect our acute awareness of how deeply interdependent, how indissolubly linked, are the American economy and the economy of the Free World. For it is upon the stability and soundness of the American dollar -- as much as upon any other single factor -- that the entire international monetary system is anchored. And an effective world monetary system is essential for strong and sustained growth in world trade.

These, as you well understand, are factors that underlie our own economic prosperity as well as that of the entire Free World. Nor is their impact or their importance confined to the economic sphere. For our ability to shoulder the burdens of world leadership -- economically, politically, militarily -- must rest as much upon the firm foundation of a strong dollar as upon any other aspect of national strength.

To ourselves, therefore, and to the world, the stability of the dollar -- and of the world monetary system which the dollar so critically supports -- is a matter of the first importance.

This is why the solution of our balance of payments difficulties and the strengthening of our international monetary system must be of deep concern to all of us in this country as well as to the peoples of the Free World. And they must be of particular concern to our businesses with operations abroad.

For, as you know, the heart of our current program to reach sustained equilibrium in our balance of payments is the voluntary program of restraints upon private capital flows overseas.

And the critical area in that voluntary program is the one that encompasses direct investment abroad by the U. S. corporations. In the announcement this past Monday of the President's intensified balance of payments program for 1966, it was made quite clear that we must look, above all, to marked improvement in the direct investment sector if we are to reach our goal of equilibirium in 1966 -- a goal we defined as within the range of a quarter of a billion dollars either side of absolute balance in our overall account.

I will not now repeat the details of Monday's announcements. I want simply to clear up some very basic misunderstandings.

Let me, first, make it clear that we fully recognize the fact that direct investment abroad ultimately returns handsome dividends to the United States in the form of repatriated earnings. We fully appreciate the fact that current outflows through direct investment will more than pay for themselves over the long run.

The problem very simply is that we cannot wait for the long run. We simply do not have the time to wait until the future returns from these outflows equalize, or surpass, their current heavy cost to our balance of payments.

The problem is that the outflows have been currently 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. We cannot simply sit and wait for the return flows to mount, for in the meantime there would grow abroad an ever-rising tide of short-term liquid claims on us -- claims that could seriously endanger the dollar and touch off a whole series of disastrous consequences that would affect all aspects of our nation's position in the world.

The fact is that some of the surplus countries of continental Europe have made quite clear their unwillingness to accumulate more dollars. And the United States and the existing Free World monetary system simply cannot afford continued deficits in the U. S. balance of payments with the continued erosion and attenuation of our reserves.

We have asked, therefore, that -- for the time being -- corporations moderate the annual increases in their rate of overseas investment. We have asked that they maintain the outflow from direct investment at a reasonable level -- to an amount ~~which our balance~~ of payments can safely absorb.

Let me emphasize, also, that these restraints are temporary measures required to alleviate a serious and current problem. There are signs that the rate of profits on direct investments in Europe is not as large as it was only a few years ago -- signs even that it is now not very much higher than in this country. As economic growth in Europe becomes more moderate, the need for large capital outflow to finance the expansion of U. S. foreign affiliates will also become more moderate. The long-run trend of the U. S. trade surplus is probably still rising, despite the cyclical decline this year. If world trade continues to grow, and if U. S. prices and costs remain competitive, our export surplus -- including remitted profits from foreign investment -- will grow. In short, there is every likelihood that within a period of time the problem may solve itself as private capital outflow from the United States abates and the surplus on current account grows.

In the meantime, we need the voluntary programs. To be sure, they require some sacrifices and involve some hardships. But the sooner we get down to business and make these programs work, the sooner the day will come when we will need them no longer.

The stakes are high -- and they involve not only the best interests of the nation but the best interests of all who do business abroad. For the strength of our dollar, and the strength of our nation, is their strength as well.

Nor need our businesses and financial institutions feel they are carrying the burden alone. They are only being asked to bear their share of a burden that the government bore -- more or less alone -- for some five years or so. As President Johnson made clear -- in connection with the intensified balance of payments program announced last Monday -- five years of intensive government effort have resulted in a 40 percent reduction in the balance of payments cost of military spending abroad -- despite rising costs overseas, the requirements of the Berlin build-up in 1962 and of the current struggle in Vietnam. That effort has also resulted in a full 50 percent reduction in the balance of payments impact of foreign assistance. We will not only sustain that effort, but intensify it wherever we can. At the same time, we recognize -- and all must recognize -- that we cannot in the foreseeable future expect large savings in this area, whose potential for savings we have already so thoroughly explored and in such large measure exhausted.

We must, therefore, in the words of President Johnson -- and I quote:

> "....reject the counsel of those who would have the Government do the entire job, at whatever cost to American security and leadership. It is private outflow that has grown so sharply since 1960. Some further reduction in that outflow is essential if we are to solve this problem without crippling our economy at home, or compromising our leadership abroad."

Thus, we must understand that, while the government can and will hold to its essential minimum the dollar drain through military and aid expenditures abroad, the overall dollar costs of those programs must be measured by the value of the national purposes they serve. And when those purposes are well served, when the welfare of the nation is advanced -- then we are all well served, then the welfare of us all is advanced -- including the business community.

And, as I have made clear, one of our greatest benefits from our foreign programs -- benefits in which the business and financial community most abundantly share -- is the maintenance abroad of the broadest possible areas of opportunity for free enterprise. Ours is an interdependent world, and interdependence has its costs. We must be prepared to meet those costs, for only by doing so can we keep the world safe and strong for free peoples and free enterprise.

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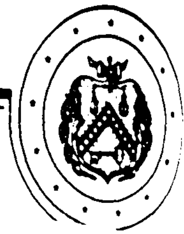
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 9, 1965

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN NOVEMBER

During November 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 $232,960,500.00.

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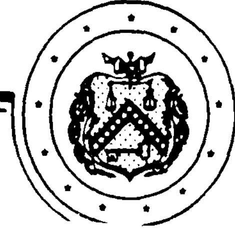
TREASURY DEPARTMENT



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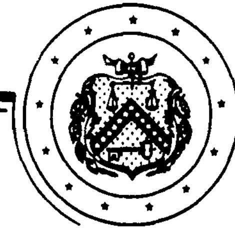

WASHINGTON, D.C.

December 9, 1965

'OR RELEASE P.M. NEWSPAPERS
'RIDAY, DECEMBER 10, 1965

GOAL OF 1966 PAYROLL SAVINGS COMMITTEE
IS ONE MILLION, 200 THOUSAND SAVERS

Business leaders from all sections of the United States met ıere today with Secretary of the Treasury Henry H. Fowler to lraft plans for signing up an additional 1,200,000 purchasers f U. S. Savings Bonds through the Payroll Savings Plan.

The Committee, consisting of 23 of the nation's business nd industrial leaders, is headed by Lynn A. Townsend, President f the Chrysler Corporation, Detroit.

Mr. Townsend, whose appointment was announced by Secretary owler, succeeds Dr. Elmer W. Engstrom, President of the Radio orporation of America, New York, as Chairman. Other chairmen f the group, established in 1963 by former Secretary Douglas illon, have been Harold S. Geneen, President of the Inter- ational Telephone and Telegraph Corporation, and Frank R. illiken, President of the Kennecott Copper Corporation.

The three former chairmen will continue to serve as members- t-large of the group, composed of 22 business leaders and ıairman Townsend. Each member represents a metropolitan area ı which he will organize intensive campaigns to enlist addi- ional interest in the Payroll Savings Plan.

About 40 of the nation's top business and industrial leaders, ›mprising both the 1966 and 1965 Committees, attended the session ıd heard praise from Secretary Fowler for their activities. Each ember of the Committee represents a major marketing area in the ıtion.

The Committee will steer the Payroll Savings program into ıe 25th or Silver Anniversary year of the E Bond. The first ıch bond was sold to President Franklin D. Roosevelt on May 1,)41. Since then, more than 149 billion dollars of E and H ›nds have been sold, and more than 49 billion dollars worth 'e still outstanding.

The ceremony included presentation of special awards to
Dr. Engstrom and Mr. Townsend for their services in
lf of the Bond program. Chairman Townsend was honored
only as head of the Committee for 1966 but as organizer
he Savings Bond effort in the Detroit area in 1965.

Secretary Fowler told the members that, largely as a
lt of their activities, E Bond sales today are running
rate of more than three billion dollars a year and
unt for approximately 68 per cent of the E and H Bond
s dollar. These sales are largely in the payroll-saver
minations, ranging from $25 to $200.

oOo

U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE

. Kelley Anderson
resident
ew England Mutual Life
Insurance Company
oston, Massachusetts
Member, 1965

llen G. Barry
resident
ew England Telephone
& Telegraph Corp.
oston, Massachusetts
Member, 1966

. L. Beesley
enior Vice President
he Equitable Life Assurance
Society of the U. S.
ew York, New York
Representing James F. Oates
Chairman of the Board
Member, 1966 and 1965

illiam B. Bergen
resident
he Martin Company
altimore, Maryland
Member, 1966

ex Brack
enior Vice President
raniff International
allas, Texas
Representing W. F. Joyce
Senior Vice President
Texas Instruments, Inc.
Member, 1966

Harold Burrow
President
Tennessee Gas Transmission Co.
Houston, Texas
Member, 1966

Henry Z. Carter
President
Avondale Shipyards, Inc.
New Orleans, Louisiana
Member, 1965

Arthur W. Cowles
Vice President
Koppers Company, Inc.
Koppers Building
Pittsburgh, Pennsylvania
Representing F. L. Byrom
President and Member, 1965

A. D. Dennis
Vice President/Finance
Allis-Chalmers Manufacturing Co.
Milwaukee, Wisconsin
Representing Robert S. Steven-
son, Chairman
Member, 1966 and 1965

Gilbert M. Dorland
President
Nashville Bridge Company
Nashville, Tennessee
Member, 1965

Dr. Elmer W. Engstrom
President
Radio Corporation of America
New York, New York
1965 Committee Chairman
1966 Member-at-Large

iam P. Gwinn
ident
ed Aircraft Corporation
Hartford, Connecticut
ember, 1965

A. Finch
ident
asville Furniture
dustries, Inc.
asville, N. C.
ember, 1966

Fontaine
rman and Chief
ecutive Officer
.x Corporation
oit, Michigan
mber, 1966

.d S. Geneen
man and President
national Telephone
'elegraph Corp.
ork, New York
63 Committee Chairman
66 Member-at-Large

N. Harris
man of the Board
nd-Ross Corporation
land, Ohio
nber, 1966 and 1965

l J. Haughton
dent
eed Aircraft Corp.
nk, California
nber, 1965

John A. Hill
President
Aetna Life & Casualty
Hartford, Connecticut
Member, 1966

Howard Holderness
President
Jefferson Standard Life
Insurance Company
Greensboro, N. C.
Member, 1965

Robert S. Kerr, Jr.
Director
Kerr-McGee Oil Industries, Inc.
Oklahoma City, Oklahoma
Member, 1965

David S. Lewis
President
McDonnell Aircraft Corporation
St. Louis, Missouri
Member, 1966 and 1965

Robert D. Lilley
President
New Jersey Bell Telephone Co.
Newark, New Jersey
Member, 1966

Robert S. Macfarlane
President
Northern Pacific Railway Co.
St. Paul, Minnesota
Member, 1966 and 1965

Walter W. Straley
President
Pacific Northwest Bell
Telephone Company
Seattle, Washington
Member, 1966

Fladger F. Tannery
Executive Vice President
PepsiCo, Inc.
Dallas, Texas
Member, 1966

Lynn A. Townsend
President
Chrysler Corporation
Detroit, Michigan
1966 Committee Chairman

Lester Ziffren
Director, Public Relations
Kennecott Copper Corporation
New York, New York
Representing Frank R. Milliken
President
1964 Committee Chairman
1966 Member-at-Large

A. Wayne Elwood
Senior Vice President
FMC Corporation
Washington, D. C.
Representing James M. Hait
President, FMC Corp.
San Jose, California
Member, 1966

defense of peace. Our obligations constitute a constant challenge to our collective effort.

I know that with your help we will meet that challenge successfully.

growth and fiscal soundness that your business experience constantly fosters.

There are few more direct means by which you, as individual citizens, can bolster our Nation's financial position than by promoting Savings Bond ownership on the part of your employees -- and those of other companies within your community of interest.

I know that you are all deeply concerned with the soundness of our contry's fiscal position; with its ability to meet its worldwide financial obligations -- particularly when increased Federal spending is needed to meet our commitment in Viet Nam.

And, that spells out rather clearly an extra emphasis to the purpose of our partnership here today. For, to those who must bear the direct burden of that conflict, we owe the best support that we can provide. Our commitments are cast in

Now, more than ever, it is important to obtain through Savings Bonds the widest possible ownership of the public debt. The Payroll Savings Plan has proved to be one of our best means of doing so. It is the only method for investing in bonds on an installment basis.

Each of you, by your leadership in one of America's leading industrial market areas, is making a substantial contribution to the growth and strength of our economy. Already your abilities and your energies are responsible for the success of the Payroll Plan in your companies. Now, you are undertaking to further extend your efforts throughout the companies whose executives you will be contacting. Your acceptance of that responsibility reflects the qualities that have brought you to the forefront of your industries -- and the concern for economic

our Nation as a whole is in his debt.

"His generous service is in the finest tradition of the volunteer spirit which symbolizes the Savings Bonds program and gives strength and vitality to our American way of life.

"Given under my hand and seal this tenth day of December, nineteen hundred and sixty-five.

/s/ Henry H. Fowler
Secretary of the Treasury"

The Savings Bonds program -- which brings this group together here for the fourth time since it was established by my distinguished predecessor, the Honorable Douglas Dillon -- is vital to the success of our debt management policy. For the Savings Bonds program is one of our most significant means of placing the ownership of the national debt in the hands of genuine savers.

in gold. But, he will know that they will always represent to him the enduring regards of an appreciative Committee, a thankful Treasury and a grateful Government. Dr. Engstrom is to receive the first "Gold Patriots" medal, but let me first read the accompanying citation . . .

"TREASURY DEPARTMENT CITATION

ELMER W. ENGSTROM
Chairman
U. S. Industrial Payroll Savings Committee

"For exceptional leadership of the 'Practical Patriots' Payroll Savings campaign.

"Inspired by his enthusiasm and splended example, American industry in 1965 substantially exceeded its goal of enrolling more than one million new regular buyers of United States Savings Bonds through the Payroll Savings Plan. While these savers are the direct beneficiaries of his devoted efforts,

and Hal Geneen -- who are to remain with us as members-at-large.

I know that President Johnson shares my admiration and respect for the lessons in good business citizenship that you have so ably provided. I know that he would join in my confidence that you will carry the new 1966 campaign through to a successful conclusion. We in Treasury will be watching your progress, wishing you the best of success.

I want to talk now about a man who personifies his own campaign theme, "Practical Patriotism". Elmer Engstrom has deeply etched his qualities of leadership and citizenship on the cornerstone of your Committee structure for 1965. The magnitude of his contributions cannot be adequately exemplified by the words of any citation or the elementsof any medal struck

(SECRETARY PRESENTS MEDAL TO TOWNSEND)

Now then, let us consider our plans for next year. Our target for 1966 -- and your mission -- is to strive to enroll 1,200,000 new employee participants in the Payroll Savings Plan. I need not dwell on the geography and strategy of your respective responsibilities as major market-area chairmen. I need not remind you that the surest and shortest road to travel in reaching your individual campaign goals requires personal commitment by the top command of the principal companies within your specific area.

It is encouraging to those of us at Treasury and, I'm sure, to all of this year's Committee members to know that we shall continue to profit from the untiring good counsel of the three past Chairmen of the Committee -- Elmer Engstrom, Frank Milliken

like to read . . .

"My warmest congratulations on the results of the 1965 Savings Bonds campaign. E Bond sales in the 'Payroll Saver denominations' have been raised to more than $3 billion a year and the Committee's goal for new Payroll Savers has been substantially exceeded.

"You, as Chairman for the Detroit area, and the other members of the U. S. Industrial Payroll Savings Committee have made a major contribution to bringing about this mighty accomplishment, benefiting the individual saver and the nation.

"As a symbol of the thanks and appreciation of a grateful Government, please accept the accompanying Savings Bonds Division's Patriots Medal.

"With warm regards."

These accomplishments, for which you gentlemen are so largely responsible, are truly substantial.

As a token of our appreciation for your effort, for your enthusiasm, and for your determination during this year's Payroll Savings campaign, I am both pleased and proud to present the award which was created to honor the members of the 1965 Committee.

I now call upon your new Chairman for 1966, Lynn Townsend, to receive his award as 1965 Chairman for the Detroit area. And let me say, first, that we are indeed fortunate to be able to count on his reputation for results to spearhead our 1966 campaign. Now, then, Mr. Townsend, this is our "Silver Patriot" award. It is framed in company with a letter that I should

RELEASE P.M. NEWSPAPERS
FRIDAY, DEC. 10, 1965

~~SUGGESTED~~ REMARKS FOR THE HON. HENRY H. FOWLER
SECRETARY OF THE TREASURY, BEFORE THE
U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
DIPLOMATIC FUNCTIONS AREA, DEPARTMENT OF STATE
FRIDAY, DECEMBER 10, 1965, ~~2:18~~ 2:00 P.M., EST

All of you are, in truth, "Patriots" in the finest tradition of the "Minute Man". You have impressed your employees as such, to join with you in furthering the mutual good of the individual citizen and his government through the Industrial Payroll Savings Plan.

New sign-ups of Payroll Savers, during 1965, approximated 1,250,000. Of that impressive number, some 180,881 were employees of the companies represented on this Committee.

Consequently, the overall sale of the Payroll-Saver Bonds -- that is, the $25 to $200 denominations -- is today running at a remarkable peacetime rate of more than $3 billion annually, accounting for 68 percent of the E and H Bond sales dollar.

TREASURY DEPARTMENT
Washington

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FRIDAY, DECEMBER 10, 1965

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SECRETARY OF THE TREASURY
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F-300

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It is encouraging to those of us at Treasury and, I'm sure, to all of this year's Committee members to know that we shall continue to profit from the untiring good counsel of the three past Chairmen of the Committee -- Elmer Engstrom, Frank Milliken and Hal Geneen -- who are to remain with us as members-at-large.

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Chairman
U. S. Industrial Payroll Savings Committee

"For exceptional leadership of the 'Practical Patriots' Payroll Savings campaign.

"Inspired by his enthusiasm and splendid example, American industry in 1965 substantially exceeded its goal of enrolling more than one million new regular buyers of United States Savings Bonds through the Payroll Savings Plan. While these savers are the direct beneficiaries of his devoted efforts, our Nation as a whole is in his debt.

"His generous service is in the finest tradition of the volunteer spirit which symbolizes the Savings Bonds program and gives strength and vitality to our American way of life.

"Given under my hand and seal this tenth day of December, nineteen hundred and sixty-five.

/s/ HENRY H. FOWLER
Secretary of the Treasury

The Savings Bonds program -- which brings this group together here for the fourth time since it was established by my distinguished predecessor, the Honorable Douglas Dillon -- is vital to the success of our debt management policy. For the Savings Bonds program is one of our most significant means of placing the ownership of the national debt in the hands of genuine savers.

Now, more than ever, it is important to obtain through avings Bonds the widest possible ownership of the public ebt. The Payroll Savings Plan has proved to be one of our est means of doing so. It is the only method for investing n bonds on an installment basis.

Each of you, by your leadership in one of America's eading industrial market areas, is making a substantial ontribution to the growth and strength of our economy. lready your abilities and your energies are responsible for ne success of the Payroll Plan in your companies. Now, you re undertaking to further extend your efforts throughout ne companies whose executives you will be contacting. Your cceptance of that responsibility reflects the qualities that ave brought you to the forefront of your industries -- and ne concern for economic growth and fiscal soundness that your usiness experience constantly fosters.

There are few more direct means by which you, as individual itizens, can bolster our Nation's financial position than by romoting Savings Bond ownership on the part of your employees -- nd those of other companies within your community of interest.

I know that you are all deeply concerned with the soundness f our country's fiscal position; with its ability to meet its orldwide financial obligations -- particularly when increased ederal spending is needed to meet our commitment in Viet Nam.

And, that spells out rather clearly an extra emphasis to e purpose of our partnership here today. For, to those who st bear the direct burden of that conflict, we owe the best pport that we can provide. Our commitments are cast in fense of peace. Our obligations constitute a constant allenge to our collective effort.

I know that with your help we will meet that challenge ccessfully.

oOo

of healthy competition and price stability in our own economy at home.

And this brings us back to savings bonds, because cannot emphasize to you too much the highly significant role played by the savings bonds program in helping to finance soundly our own Government, and in helping to maintain a strong dollar internationally. You gentlemen have indeed undertaken a worthwhile and challenging task, and I hope that you will find it satisfying as well. Judging from the excellent past accomplishments of your Committee, I can confidently rely upon you for a major share of what I believe will be a highly successful 1966 payroll savings campaign.

oOo

generate earnings abroad and, hence, are, of course, a great source of strength to our payments position, can nevertheless drain our reserves in the short-run if the flow is proceeding too fast. The new direct investment measures are expected to achieve balance of payments savings of better than $1 billion in 1966. However, the program is by no means designed to stifle these productive investment flows. Indeed, it is expected that the 1966 level might be about equal to that of 1964, and substantially greater than in other recent years.

We expect this greater effort toward moderating direct investment outflows to play a key role in achieving our goal of approximately balanced international accounts in 1966. But this is only one part of a many-pronged attack. The highly successful program to limit foreign lending by banks and other financial institutions will be continued next year,

anticipated earlier. Indeed, before the Viet Nam spending built up, there was an excellent prospect that the current fiscal year deficit would be considerably under the $5-1/4 billion figure estimated last January. As it is, we would now expect to exceed that figure by perhaps $2 to $3 billion.

Before concluding, I want to review with you briefly another area in which the past year has seen gratifying progress, but in which a difficult job remains to be done. I am referring to the shrinkage in our international balance of payments deficit, which has given us a significantly stronger dollar internationally at the same time that a prosperous domestic economy and a relatively stable price level have provided a strong dollar at home.

Through the first three quarters of this year, our over-all payments deficit has run at an annual rate of about

made in the last few years, particularly in lightening the volume of issues just a year or two away from maturity, permits us to have a little breather now and then, but we remain alert to the need for maintaining a well-balanced debt structure.

The greater spending needs caused by the Viet Nam conflict have made the robust savings bonds program all the more important in maintaining economic equilibrium at this time. The latest reassessment of the budget for the current fiscal year showed that spending might rise to as much as a $105-$107 billion range, compared with the estimate last January of just under $100 billion.

Fortunately, this fiscal year's prospective deficit has increased by nowhere near the same margin as spending because revenues are also expected to rise above the level

debt over the past year. When I met with this group eleven months ago, we were just in the midst of a large advance refunding operation -- one of a series of such operations that has contributed quite hamdsomely to an improvement in the debt structure ofer the last several years. Following that offering, in which holders of nearly $9.8 billion of relatively short-term issues elected to exchange their holdings for bonds maturing in 5, 9, or 27-1/2 years, the average maturity of the marketable debt was raised to 5 years and 5 months -- up from a low point of 4 years and 2 months as recently as 1960.

This this is an area where one has to run pretty fast just to keep from losing ground. In subsequent debt operations this past year, while we have sold additional 9-year bonds and refunded other maturing issues into the 1-to-5 year area, the average maturity has drifted back to the level of 5 years. Fortunately, the excellent progress

a year of wrestling with the Treasury's perennial problems in the area of debt management, I am more than ever keenly aware of the vital contribution of savings bonds to our over-all financial management.

As all of us know, a by-product of our unparalleled national prosperity, with large credit demands pressing on the available supplies of funds, is that market rates of interest have risen. Quite naturally, the upward rate trend has not made our task of refinancing maturing issues and raising some new cash any easier. And clearly, if it were not for the substantial sales of savings bonds, the job would have been all the more difficult and costly.

Given the buoyant, economic climate, and keen competition for funds in the economy, the Treasury nonetheless has made continued progress in restructuring the marketable

attribute that all who believe in a free enterprise economy should value.

The campaign in this 25th Anniversary Year will be offering new challenges. More people are at work than ever before in our history -- and at higher wages and salaries. With our economy now well into the fifth year of a broadly based expansion, and unemployment at its lowest ebb in nearly a decade, many thousands of Americans are just reaching a threshold of financial well-being where they are ready to take part in a program of systematic savings. New workers should also be new savers, participating in our Nation's high purposes, while at the same time benefitting from and contributing to its financial strength.

Those of us responsible for the management of the Federal debt have, of course, a special concern for the success of your savings bonds campaign efforts. Indeed afte

have increased the amount of their systematic savings. In the 1965 campaign, under the highly effective leadership of Dr. Engstrom, sales of the $25 to $200 E Bonds will reach a peacetime annual record of more than $3 billion. I don't have to remind you that the steady sales of those smaller denominations are the backbone of the payroll savings plan. Payroll savings now account for 60 percent of all E Bond sales -- a rise of about 10 percent in the past three years -- testifying to the quality of the Committee's leadership, enthusiasm, and determination.

We are meeting here today to map out another year's successful payroll savings campaign. Each of you has volunteered your energies, your resources, and your time because of your personal experience and belief in the savings bonds program. No one is more aware than you are of the importance of the program to Americans as a savings medium.

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE
THE U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE
DIPLOMATIC FUNCTIONS AREA, DEPARTMENT OF STATE
FRIDAY, DECEMBER 10, 1965, 1:30 P.M., EST

For a quarter of a century, American industry has made a substantial contribution to the financial stability of this country through its active promotion of the payroll savings plan. This joint effort of business and Government started with the very beginning of the program in 1941. During World War II, it was an important part of the war financing effort; and throughout the postwar years, the payroll savings plan has been the solid foundation of the savings bonds program.

In the past three years since your Committee was first formed, some major additions have been made to this solid foundation. New enrollments of payroll savers in industry have exceeded one million each year. In addition, many thousands of employees already participating in the plan

TREASURY DEPARTMENT
Washington

:LEASE P. M. NEWSPAPERS
:IDAY, DECEMBER 10, 1965

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The contribution your efforts are making to the sound management our public debt, and in turn to the financial stability of our

F-301

.on, is evidenced by the fact that E and H Bonds outstanding now ›unt for some 23 percent of the entire publicly held Federal debt. ›ther nation has achieved anything like the broad public participa- ι in financing its government that we, as a direct result of the .ngs bonds program, too often take for granted in this country.

The $49 billion now outstanding in these bonds is also a valuable rvoir of personal financial security for the millions of Americans through their savings bonds purchases are sharing in responsible zenship and responsible Government. Through payroll savings, people who might not otherwise save at all are learning how to and how to build their own family security. This is an attri- that all who believe in a free enterprise economy should value.

The campaign in this 25th Anniversary Year will be offering new lenges. More people are at work than ever before in our history nd at higher wages and salaries. With our economy now well into fifth year of a broadly based expansion, and unemployment at its st ebb in nearly a decade, many thousands of Americans are just hing a threshold of financial well-being where they are ready to part in a program of systematic savings. New workers should be new savers, participating in our Nation's high purposes, ə at the same time benefitting from and contributing to its ıcial strength.

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Through the first three quarters of this year, our over-all
ıyments deficit has run at an annual rate of about $1.3 billion,
: about half of the 1964 rate and about one-third of the high
)60 rate. A good share of the credit for the improvement this
:ar must go to the program of voluntary credit restraint launched
ıst February, under which banks, other financial institutions, and
ısiness corporations have made significant progress in curbing
ıpital outflows.

Referring to this progress, and to the job still remaining to
· done, President Johnson recently said -- "We have done well,
ıt we must do even better." As part of the effort to eliminate
ıe deficit an extension and strengthening of certain aspects of
ıe voluntary program was announced just a few days ago. A particu-
ır effort is being made in the area of direct investment abroad
' U. S. corporations. These outflows, which over the long-run
:nerate earnings abroad and, hence, are, of course, a great source
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other recent years.

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nt outflows to play a key role in achieving our goal of
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only one part of a many-pronged attack. The highly successful
ogram to limit foreign lending by banks and other financial
stitutions will be continued next year, as will the interest
ualization tax on purchases by U. S. residents of various foreign
curities issues. I won't take the time here to mention every
her aspect of this program, but two points should certainly
covered:

First, the Government, itself, is making every further effort,
thin the contraints posed by vital military and economic aid
nmitments, to curtail its own dollar outflow; these efforts in
: past few years have succeeded in cutting back sharply the
penditure of Federal dollars abroad.

Second, and perhaps most vital of all in terms of achieving
long-lasting solution to our problem of deficits, we must
double our efforts to expand American exports. And that, in
way, brings us full circle -- because the most effective means
know to assure our success in the world's highly competitive
port markets is to maintain a climate of healthy competition and
ice stability in our own economy at home.

And this brings us back to savings bonds, because I cannot
phasize to you too much the highly significant role played by
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an ever widening membership of countries willing to believe that their maximum individual benefits will be found in the maximum common gain.

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If we have learned anything about the solution of economic problems, one of the great lessons is that lasting progress arises out of expanded economic resources.

What we need for the development of a stronger Free World -- including, at the very heart, a stronger Atlantic Community -- is to put these lessons together. Let us develpp our trade and our investment policies, public and private, in ways that permit the maximum sound economic expansion, as a growing pool of economic resources for the use of each of us for the benefit of all of us.

And let us, in realization of our interdependence, continue that development of internatkonal cooperation and collaboration that has become the hallmark of the Free World in the last few decades, to the end that we bind ourselves ever more firmly into a matrix of peaceful progress and development. open to

business. Indeed, the same trend is evident in some of the developed countries where multinational companies have become well established.

So today --with multinational business at an all-time peak, and the multinational corporations of the developed countries who are members of the Organization for Economic Cooperation and Development possessed of the greatest potential for international economic development in history -- the dangers and opportunities match each other in equal challenge.

I think this brings us to a good parting point.

We are interdependent, as countries, as developed and less developed worlds, and as public and private sectors.

broadened competition, and the spread of technical and organizing knowledge -- these hallmarks of multinational business have helped to bring an expanding, more integrated and efficient structure to the West since World War II.

And there is no doubt that, given these same conditions, plus some reasonable assurance against state confiscation, state competition and discrimination against foreign enterprise the multinational corporations can make significant contributions to the emergence of viable and free economic societies in the less developed countries.

But certain facts must be faced. In many of the less developed countries, the rising tide of nationalism mixed with state intervention or discrimination in varying degrees has created an uncongenial atmosphere for multinational private

multinational companies cannot be regarded as sound enterprises. So the fact of life is, that the multinational company, valuable as its contribution is, must be willing to moderate its activities on a temporary basis sufficiently to help pay the costs of maintaining a safe and sound world.

Today, we have all come to a far greater appreciation of the importance of the private sector in our nation's role as a leader in world affairs -- especially of the importance of our multinational companies. It is difficult to overstate their importance to continued growth in the Free World economy -- particularly among the less developed nations.

The expansion of international trade, the freedom of money to flow across national boundaries, the welcome extended to foreign business units, the stimulating effects of

interdependent economic development -- among developed as well as among less developed countries. This is the multinational company.

If we place some restraints upon the dollar outflow of United States multinational companies now, it is only because it is temporarily necessary to do so in order that they may continue to function in a safe and healthy world environment. Unless the dollar remains sound -- and it cannot do so if great surplus pools of dollars develop around the world as the result of chronic United States payments deficits -- unless the dollar remains strong, American corporations cannot remain strong. And unless we continue with the economic and military assistance around the world that creates a better environment for all of us to live and work and for private institutions to flourish, the investments of our

I think the OECD's work -- and its even greater potential as we come ever closer to grips with the problems and possibilities of interdependent Atlantic Community and Free World development -- are so important that we should be certain that it is as capable as we can make it. To this end, I am wondering if the time may not have come for the member nations to take a new look at OECD, after the passage of nearly five years, with the objective of making any institutional changes that such an examination might suggest, and also with the objective of giving OECD new working instructions fully in keeping with conditions and opportunities as they are now, and as they seem to be developing

A Valuable Private Agent of Interdependent Eco

the Multinational Company

Let me close now by getting down

that has to accomplish most of the

it is my hope that the industrialized nations that have not yet signified their support of the Asian Development Bank will do so, and that other nations will carefully assess the adequacy of their capital subscriptions."

I think that you will agree with me when I say that it is not too much to expect that this hope will be fulfilled.

A Valuable Public Agent For Private Economic Growth in the Atlantic Community -- the OECD

A good deal has been said in my remarks about the Organization for Economic Cooperation and Development. What has been said reflects the fact that this Organization fills an essential spot, and does vital work, in the Atlantic Community and the Free World.

In sending the United States delegation to Manila to sign the Charter of the Asian Development Bank, President Johnson said:

I regard the organization of this great new institution as one of the most hopeful events of our times because the Asian Development Bank has been put together by Asians, and because they themselves are contributing the greater part of its capital and will direct its lending for development in Asia.

"Even so, I should note that the problems of Asia are of an order and a diversity requiring the widest possible participation in their solution by the economically better developed nations. Consequently,

who have already signed to increase their subscriptions so as to bring the capital of the Bank up to the full authorized figure of $1 billion.

The Asian nations have accepted responsibility for $650 million of the authorized capital, and are very near to that mark. Of this, Japan has pledged $200 million. Of the remaining $350 million, the United States has accepted responsibility for $200 billion and pledges have been made by Germany, Canada, the Netherlands, Italy, the United Kingdom, Belgium and Denmark. However, these non-regional pledges are not sufficient to fill out the $1 billion authorized capital needed to launch this highly important new venture in East-West interdependence with the funds it should have to start its work.

acceptance of increased development aid responsibilities by surplus countries, makes sense from both international monetary and development standpoints.

There are other ways -- bilateral and through the regional financial institutions -- in which needs can be met. Not one alone, or two -- but all those in a position should see how best to respond to the need and to share realistically in the response.

One of these responsibilities, and one, I may add that is not at present being adequately shared by the advanced countries of Western Europe, is presented by the Asian Development Bank. In Manila on December 4, more than 20 Asian, American and European founding nations signed the new Bank's Charter, but left the books open until January 31 for other countries to become founding members, and for those

means for development consistent with the mounting burden of debt repayments by the less developed countries. We have done, and hope to continue to do, our part in this worthwhile, sound affiliate of the World Bank. We look for others to share more in this endeavor and we are willing to consider doing more provided that the burden sharing by others is forthcoming.

In the light of the realities of international finance, ways and procedures should be found to reflect the willingness of the developed countries to shoulder these larger commitments, subject to the condition that when the time to fulfill them arrives, the expanded obligations need not be performed by those developed countries in serious balance of payments difficulties. This type of arrangement, looking toward the

To a considerable extent, they show up in the accounts of other countries as balance of payments surpluses.

I repeat now what we have suggested before: one of the major elements in a long term solution to the world payments problem lies in finding better means of placing balance of payments surpluses back into circulation. One of these better usages of payments surpluses, I suggest, would be found in incrdased commitments by surplus countries to development assistance.

There are many concrete channels for increased cooperation The International Development Association, for example, was brought into being to meet some of the urgent needs I have described. On a multilateral level, it mobilizes resources from the developed countries to less developed and does so on the kind of easy repayment terms that makes sense in providing

also is the magnitude of external debt problems. From $10 billion in 1956, outstanding international debt of devloping countries reached an estimated $33 billion. The amount of foreign exchange needed annually to service this debt rose even faster -- from $800 million to $3.5 billion. It can be expected to rise even more rapidly in the future.

I believe that one of the major advances in international cooperation in development assistance is to be found in exploitation of one of the facets of the international Monetary situation we have just been discussing. I noted that there has been a vast outflow of ddlars in recent years, and that these dollrs hhat have lodged abroad represent our balance of payments deficits.

For one thing, the task is so gigantic that we need a much greater commitment to the sharing of the task among the developed nations than we have had, if we can hope to make visible progress with it.

There have been many estimates of what is needed to support adequate growth in the developing countries. In 1964 some $6 billion in net disbursements of official aid went from the industrial to the developing countries and the flow of private long term finance added another $2.9 billion. What of the future?

The annual Report of the World Bank gives a staff estimate that some $3 to $4 billion a year more than present flows of development finance could be effectively used. I am not going to give or endorse any specific estimates, but the magnitude of the task is, to say the least impressive. So

from the same sickness.

We are economically interdependent with this world because it provides us with most of our raw materials, and because, as its markets grow, it will increasingly be an outlet for our ever increasing ability to produce goods and services.

And we are interdependent with this world because we want it to remain open for the development of the ways of freedom that have made us strong and that offer the best hope for a future world strongly knit together, in peace, by shared economic and social progress.

But it is not enough simply to realize that we have compelling reasons for assisting the less developed nations toward a better life, to succeed in helping them.

He said:

This is not a matter of an immediate crisis, but it is a matter on which we must begin to act -- now. We must begin now to provide machinery for the creation of additional reserves. Gold alone will not be enough to support the healthy growth the entire w demands."

The Interdependence of the Developed and less Developed Countries

The interdependence of the world in which we live is not a simple two way street running among theddeveloped nations. There are many side streets, and they lead off from our well lit world glowing with promise into dark precincts where poverty is the rule. The developed countries are not independent from the less developed world because, in the first place, the less developed world is part of mankind, and so long as part of kind is sick, we cannot count ourselves completely well.

international monetary system, including arrangements for the future creation of reserve assets and credits as and when needed. This work is going forward on an accelerated schedule, and a report on the progress made has been requested by the Ministers in the Spring of 1966. When these major countries shall have found a basis for agreement, I have urged -- and my colleagues in the Group have agreed -- that there should be a second stage, to permit brodder consideration of questions that affect the world economy as a whole, including the developing countries as well as the advanced countries.

President Johnson gave the Annual Meeting of the International Monetary Fund in October, a thumbnail assessment of this situation that is highly accurate for all its brevity.

countries in amounts and on terms that are consistent with the realities of the adjustment process in a world of fixed parities where sharp deflation or "stop-go" patterns of economic growth are not acceptable alternatives.

There is no simple statistical test for the adequacy of reserves. However, it is worth noting that even the very large aggregate additions to reserves of foreign countries, outside the United States, during the past six years, did not avoid a moddrate decline in the ratio of reserves to the annual value of imports. Reserves stood at 41 percent of trade value in 1958 but fell to 38 percent in 1964.

Representatives of what is known as the Group of Ten -- ten leading industrial nations of the West -- are currently seeking a basis of agreement on improvements needed in the

additions to reserve holdings. Without an alternative source for growth in world reserves, the pace of the world's economic growth in the future could be endangered.

Here again, as with international trade, unless we commit ourselves to growing interdependence -- and look to interdependence to insure our growth -- there are potential dang free World fragmentation. If the limited supplies of new gold production are not supplemented by arrahgements to create additional reserve assets, countries finding that their reserve are not increasing -- while the economic expectations of their people do increase -- may drift, consciously or unconsciously, into restrictive domestic and external policies.

To provide for continued economic growth in the Atlantic Community we must find the feasible means of assuring that reserves or credits will be available to deficit

The Need for New International Monetary Arrangements

The Free World can help to assure continuing economic growth by reaching decisions at an early date that will provide for creating a supplementary form of international reserve asset, to insure that there can be an adequate increase in world monetary reserves in the future.

World monetary reserves increased during the six years, 1958 to 1964, by approximately $17 billion, and nearly $13 billion of this amount was in the form of dollar reserves. Such a large addition to the official dollar holdings of foreign countries was made possible by our large balance of payments deficits.

As our balance of payments moves into equilibrium, we will no longer supply the rest of the world with large annual

units huddled up each with its own protective system, each unaware that it is lagging far behind its potential because it permits no comparisons.

If there are any here who take this as a flight of the imagination, I invite them to take a look at the nations -- each imprisoned with its own central plan -- of the marxist persuasion, where the abolition of competition in all of its creative forms has worked precisely such a miserable result as I have just been describing. It can happen to the Free World, and it is not even necessary to be marxist -- the immense benefits of market competition can be lost just as easily without doctrine as with its guidance.

movements are justified in prices and wages.

Should the Kennedy Round aim of greatly reducing tariffs and other impediments to international trade competition fall victim to economic nationalism or regionalism, the Free World stands in danger of growing economic distortion and inefficiency perpetuated by an inward looking illusion that all is well. In these conditions, some economic growth can, of course contin But judged by the standards of the rapidity of economic growth, and the stability and the widespread real benefits to be gained from growth taking place under competitive conditions, the advances under restrictive conditions will be niggling, the benefits will tend to be more illusory than real due to disguised inflation, and, worst of all, the Free World will tend to pull apart into a congeries of closed

trading partners view as barriers to their exports. Mutual concessions are the key to the success of the Kennedy Round. And the success of the Kennedy Round is a matter of highest importance to the continued economic strength of the Free World.

At a time when centralized governmental planning and direction of economic development is practised even in some of the industrialized nations of the West, the winds of competition from international trade become particularly important. In these circumstances, competitive international trade is rapidly becoming not only the best, but in a growing number of instances, it is almost the only reliable manner of testing the costs of labor and capital, of measuring relative efficiency, and of indicating where investment is needed, where it is already sufficient or in surplus, and what

schedule with the understanding that the EEC would make its offers as soon as practicable.

One of our objectives in the Kennedy Round is to maximize trade benefits to the exports of the less developed countries, and we are now actively engaged in talks for this purpose with more than 20 developing nations. I would like to state that there are wide benefits for such countries in the offers which the United States has put down.

In addition, we are conscious of the danger that the effect of significant tariff reductions could be impaired or nullified by non-tariff barriers. Such trade barriers, as I stated above, are therefore an important sector of the negotiations.

If we hope to secure reduction of barriers to our export we must be prepared to liberalize U. S. practices which our

The Reduction of Barriers to the Freer Flow of International T

This Kennedy Round of trade talks now going on at Geneva -- so called because the talks were made possible by new tariff reduction authority granted by the Congress to the President at President Kennedy's request -- is the boldest approach to multilateral liberalization of barriers to international trade which the United States has ever undertaken. We are firmly committed to bring this historic effort to a successful conclusion.

Thus far in the negotiations we have exchanged offers for an unprecedented 50 percent reduction in tariffs on a broad range of industrial products. In agricultural products initial offers were exchanged in September of this year. The European Economic Community was unable to join in this exch but the other participants maintained the previously agreed

embodied in new income tax treaties the United States is now negotiating in the course of an extensive revision of its income tax agreements with developed countries, prompted by recent changes in the corporate tax systems of the European countries and the adoption in 1963 by the OECD of a Model Income Tax Convention. The pattern emerging from these negotiations provides a widened flexibility to international trade and investment activities between the United States and Europe.

The elimination of all sorts of non-tariff barriers to trade, including elimination of tariffs disguised as taxes, is one of the major objectives of United States negotiators in the current, Kennedy Round, talks with our trade partners for world trade liberalization.

for simplifying, reducing or eliminating taxation, here and abroad, standing in the way of the development of a stronger and deeper Free World interdependent economy. As examples of the type of action needed to clear away the barriers in this area let me cite our main conclusions.

The United States government should proceed unilaterally to reduce or eliminate a number of tax obstables to investment in the United States. We should not wait upon the negotiation of reciprocal action by other countries on their impediments to the sale of dollar securities abroad because this is a slow process and we need to get the balance of payments benefits quickly. We accompanied this with a series of seven recommendations for specific tax actions aimed at making foreign invest[illegible] in United States corporate securities easier and more profitable.

Many of the improvements our Task Force recommended are

restraint on the flow of foreign investment funds to this country, and that flow needs to be increased to help right our balance of payments.

A Free World looking to the growth of international trade and of international investment as major factors promoting sound economic growth, and the improvement of living standards, needs to sweep away the tax barriers to trade and investment.

As I have already indicated, I was privileged to head a Task Force established by President Kennedy as part of his program for bringing our balance of payments deficits to an end, and continued by President Johnson. Our Task Force was charged with developing programs to promote increased foreign investment in United States corporate securities and increased foreign financing for United States corporations operating abroad. A major part of our recommendations dealt with means

bring its foreign payments into sustainable equilibrium without some interferences with the free flow of funds. While U. S. private internatimoney markets are efficient and relatively free of controls, and European markets are controlled or inefficient -- or both -- there will be -- lacking conscious restraint on our part -- a strong tendency for the rigidities and insensitivities of Europe's capital markets to impel excessive resort to U. S. capital markets by both developed and less developed countries.

Reduction and Removal of Tax Barriers to Trade and Investment

A simple tax law can nullify the most liberal trade and investment policy, and simple tax laws often do so. Taxes are one of the major non-tariff barriers to increasing the economic desirable exchange among nations of their goods and services. United States taxation of foreign investors is a major

Committee is to receive the reports early next-year on sources of savings, the channels for their transfer into productive investment and the use of savings, among the various countries.

This is progress -- but at a disappointingly slow pace. Every effort must be made to step up the pace and to insure that appropriate recommendations are given attention at high levels of policy decisions so that they are translated into action as promptly as possible. Only then can we move, as we should, boldly into a Free World where capital can flow freely in international markets attuned to the needs of today and tomorrow. Those needs are both urgent and deserving of attention.

Until there are great improvements in capital markets abroad, the United States will be hampered in its efforts to

the attractiveness of investment here and increase the attractiveness of investment abroad, aggravating rather than improving our balance of payments position.

But action the other way around could help, and we should be gratified that some progress is being made.

The various efforts publicly made that I referred to earlier were paralleled by efforts in Working Party 3 of the OECD to get that organization to grip the problem and give it long deserved attention. We were gratified when the OECD Ministers at their annual meeting in November 1964 agreed that the organization should undertake to study the ways in which the OECD could assist countries in increasing the efficiency of their capital markets, and of reducing restricti Since then the problem has been under review by three groups of experts set up by the Committee on Invisibles. This

would be folly for us to try to staunch the flow of United States funds abroad by restrictive monetary policies aimed at raising interest rates in this country to the structured high levels of the countries of Western Europe, and of Japan. Foreign borrowers were not daunted by two rises in the United States discount rate, in July 1963 and in November 1964. Before the latest increase in the Reserve System's discount rate a few days ago the gap was as big, if not bigger, than it was previous to the 1963 rise in the U. S. discount rate. And it appears from current reports that rises in interest rates in Western Europe will rapidly wipe out any temporary narrowing of the gap which might have resulted from the recent action of the Federal Reserve Board. Long before we could level rates here and abroad through this process, we would drive this country into a recession that would reduce

spectacle of one European government borrowing abroad to cover a budgetary deficit when it had a balance of payments surplus that it was converting to gold at the expense of United States reserves. And we have also in recent times seen another government send representatives of its nationalized industries, and of government agencies, to borrow in the United States because they could not agree on how to raise needed funds at home, although -- again in the case of this country -- the borrowing country had a balance of payments surplus that it was converting to gold.

It was this structural imbalance in foreign money markets that forced us in 1963 to apply an Interest Equalization Tax on long term portfolio credit to foreigners in developed countries. And it is this structural imbalance that makes it clear that whatever domestic reasons may justify them it

of observations that I will draw upon in some of the following passages:

With rate exceptions foreign financial markets lack a fluid and large short term money market, and long term bond markets are even more restricted. This means that for the most part there is simply no means by which private borrowers and lenders, and even to a considerable extent, governments, can readily raise -- or dispose of -- large sums of money, quickly, in open markets. They are forced, instead, to move with their demands through the bottlenecks of a few big institutions dealing with customers on a personalized basis. These institutionalized markets are so insulated from the short term money markets that they are relatively unresponsive to the actions of monetary authorities.

This deficiency can go so far as to provide us with the

Bankers Association meeting in Rome early in 1962 and reemphasized it at the 13th Annual Monetary Conference of the ABA at Princeton this past March. The Treasury submitted in December 1963 a detailed description and analysis of certain European capital markets to the Joint Economic Committee of the Congress as part of the record of hearings held by the Joint Committee in July 1963. In April 1964, a Task Force which I had the honor to chair submitted for the President a report on Promoting Increased Foreign Investment in U. S. Corporate Securities and Increased Foreign Financing for U. S. Corporations Operating Abroad. This also called attention to the obstacles, inadequacies and needs in foreign capital markets. I would draw attention specifically to recommendations 36, 37, 38 and 39 of that report.

In his March, 1965 speech Secretary Dillon made a number

the benefits of each are the source of gains for all.

SOME AREAS FOR IMPROVEMENT IN THE INTERESTS OF
SOUND AND RAPID FREE WORLD ECONOMIC GROWTH

The Need for Freer and More Effective Capital Markets Abroad

One of the first and most fruitful improvements that could be envisioned in the workings of the Free World economy as a whole would result from the creation in Europe and in other advanced countries of a capital market with something approaching the freedom, flexibility, variety of options for the use of funds, and variety of institutions for their placement that exists in the United States.

The inadequacies, the obstacles and the needs existing in capital markets abroad have been spelled out on a number of occasions over recent years. My predecessor Secretary Dillon called attention to this area in a speech before the American

domestic demand, when and if they consider it appropriate to do so."

We submitted to this Subcommittee, chaired by Senator Muskie a country by country analysis, and an analysis of the provisions in our balance of payments program to protect the economic progress of the less developed countries, from which we concluded that our program:

"... has not damaged the economies of the advanced countries or dimmed the prospect for flourishing world trade (and that) direct investment in the less developed countries is in no way discouraged."

I would like to turn now to a brief examination of some areas for joint action within the OECD whereby we might hasten the prospects of a sound, strongly growing and inter-dependent Free World economy, beneficial to each because

aggravated more directly the economic positions of some countries, particularly the United Kingdom, Canada and Japan. Such concerns do not seem to be to be justified by the facts.

"In most of the industrial countries -- more particularly those in Western Europe -- economic expansion continues and the pressure of internal demand remains strong. These governm relying on restrictive monetary policies to avoid inflation, which I might say were inaugurated long before the President's balance of payments program, some in 1963 and some in 1964, have welcomed our balance of payments measures for the support given to domestic restraints abroad. With respect to these countries -- broadly characterized by strong reserve positions and brisk domestic economic activity amidst varying degrees of inflationary pressure -- there is no basis for any conclusion except that the tools and resources are at hand to strengthen

economic policies of the countries concerned, and they are not results -- as has sometimes been alleged, chiefly here in the United States -- of our efforts to restrain dollar ourflows so as to eliminate our balance of payments deficits. I set this forth in testimony to the Balance of Payments Subcommittee of the Senate Committee on Banking and Currency in August, in which I said:

"Some concern has been expressed that our program genera might adversely affect liquidity in the international payment system, tend to impede growth of economies abroad, and restrai the desireable expansion of international trade.

"None of this concern has come from the countries concern Most of the concern about what we are doing to other countries seems to be here in the United States.

"It is sometimes suggested that the program has seriousl

I do not know if such an examination would indicate that ~~with~~ a different policy mix -- one, perhaps, placing less reliance on monetary restraint and more on the use of fiscal policy to balance supply and demand -- would have permitted Europe to achieve the price stability it has sought but has not achieved over the past several years without sacrifice of growth potential. And of course it should be kept in mind that -- as the OECD study just cited indicates -- experience has varied greatly among the various individual European countries.

It is not appropriate for me to attempt such an examinati at this time and place. That is the function of the multilat surveillance exercises of the OECD committees. What I would like to emphasize is that whatever the results have been in Europe in recent times, they must be attributed to the inte

outlook has deteriorated and there is unlikely to be any significant rise. However, in the United States the growth of GNP seems likely to be nearer 5 percent than the 4.5 percent expected earlier. Bigger gains are also expected in Canada.

"There now may be no further slowing down in the aggregate growth rate in 1966. On present trends the year-to-year gain for the OECD area as a whole may be in the 4 to 4.5 percent range. But big differences between different countries, and in particular the divergence of trend between North America and the rest of the area, may well continue."

I do not know what a thoroughgoing examination of the economic policy mix in use in Europe during the last few years would disclose with respect to the fact that Europe's economic expansion is apparently now slipping below the growth goal set for the Decade of Growth.

wage and price deicision.

While the United States has risen to a growth rate of 4.7 percent over the past four quarters ending September 1965 -- well above the 4.1 percent annual average set as a target for the Decade of Growth in 1961 -- Europe has been struggling to stay above the target rate, and currently appears to be falling below it. An assessment by OECD economic analysts, made public this week by The OECD Observer, a publication of the Organization for Economic Cooperation and Development, gave this summary of the current picture:

"In terms of real output, the growth in Gross National Product for Europe in 1965 looks as if it will be around 3.5 percent, with Britain, France and Italy lagging behind, and Germany and most of the small industrialized countries except Belgium showing gains well above the average. In Japan the

This is the fact that, at the earliest stages, emphasis was given to increasing our capacity to produce and to keeping our productive efficiency on the rise and our costs down.

In part, this was accomplished through tax reductions that spurred investment by making investment more profitable. In part also, the early and sustained effort to keep the rise of ourput in step with the increase of demand -- and thereby avoid a boom-bust situation -- took the form of attacks upon unemployment and upon low productivity through increased investment in enlarged and more efficient capacity and in the Manpower Retraining Program.

The final element of the mix was also supplied early in the expansion: In the first months of 1962 the Council of Economic Advisers issued wage-price guideposts that have assisted both business and labor in arriving at non-inflation

past 12 months. Thus, compared with earlier U. S. expansions and the performance of other countries, the record remains very good. Contributing to this near stability is the fact that labor costs have moved within the bounds of productivity growth. Indeed, unit labor costs in manufacturing during the third quarter of 1965 were a bit lower than at the start of this expansion, in early 1961.

These policies resulted in an economic expansion that has so well balanced the growth of demand with the growth of capacity to produce and the increase of productivity that we have had a very long period of economic growth and improvement without inflation. This unusual combination of results was made possible by one of the critical -- but too little noted -- elements of the policy mix that underlies the current economic expansion.

resulting from a rigorous program for the control of Federal spending and reduction of government costs at every possible point

Under the combined effects of economy and efficiency in government, and increased Federal revenues resulting from the economic flowering that followed upon personal, business and excise tax reductions, President Johnson was able to cut the Federal deficit from an expected $11.9 billion in Fiscal 1964 to an actual $8.2 billion in that year, and to $3.4 billion inFiscal 1965, despite tax reductions in those years that totalled $20 billion at next year's levels of income.

In the initial four years of the U. S. expansion, wholesale prices remained virtually stable, while consumer prices moved slowly upward, at a rate of 1.2 percent a year, mainly due to selective increases in the costs of services. In the last 12 m wholesale prices advanced 2.3 percent -- but the larger part of this increase reflected temporary factors affecting food and far products. Industrial prices have risen only 1.3 percent over t

to what was needed.

I would like to draw your attention to the character of the policy mix that produced this sustained profit rise for business, sustained income growth for individuals and sustained economic growth and improvement for the nation: it is the result of a mix of policies designed to attack problems of inadequate growth and excessive unemployment, at the same time building in protection against inflation by encouraging increases in capacity to produce and productive efficiency, while we also moved toward equilibrium in our balance of payments.

To these developments in the private sector was joined a judicious program of Federal outlays for the improvement of the quality of American life, most particularly for the expansion and improvement of education, and the reduction of poverty, paid for in a substantial part out of savings

-- a drop in unemployment from 6.9 percent of the labor force in early 1961 to 4.~~3~~2 percent ~~this Fall~~ last month.

We ask all to join with us in defending this enormous strengthening of the economic base of our national life because it is not something that just happened -- it has happened because public policy in the past few years has been such as to reward private economic enterprise -- business and personal with dramatic new incentives that have infused a new dynamic drive into our economy. Let me mention the main elements of this economic policy mix:

During the past four years tax policy has lifted from personal and business lives the oppressive burden of wartime rates of Federal taxation and excises that were imposed partly with the object of restraining investment and consumption and that had been allowed to persist long after they were contrary

five year mark in an economic expansion that is awesome in its proportions, unprecedented for its balance and stability, and impressive for the distribution of its benefits over all parts of the economy. Let me point out for you just a few of the highlights of the vast national economic improvement that our country has enjoyed since 1961:

-- a 35 percent rise in our total national output;

-- a 32 percent rise in consumer spending;

-- a ~~51~~ 56 percent rise in business investment in plant and equipment;

-- a 39 percent rise in manufacturing production;

-- an 84 percent rise in corporate profits <u>after</u> taxes;

-- a 32 percent rise in personal income;

-- GNP increases averaging ~~better than~~ precisely 5 percent a year in constant 1958 dollars;

patronizing. Europe's recent economic experience, in the Fall of 1961, had been startlingly different -- and better -- than ours. From 1953 through 1960, the growth rate of the European member countries of OECD averaged 4.8 percent a year. Japan, as you are no doubt aware, did even better. The European consumer was well on the way to a revolutionary change for the better in his living standard. The successful development of the Common Market gave Western Europe as a whole a sense of prideful unity. And there was an added boon for Europe -- quite contrary to the classical picture of surging demand and rising prices bringing on a balance of payments deficit, Europe's cup was running over with a surplus of dollars.

The United States, on the contrary, had both the lag at home and the sag abroad.

But things are very different now. We are nearing the

import competition. At the same time, a series of balance of paymemtts deficits -- averaging almost $4 billion a year for three years, had made the dollar vulnerable and threatened the international monetary system based upon it. This meant that we faced the problems of encouraging domestic demand without worsening, indeed while improving, our balance of payments position. That required us to make only limited use of monetary policy.

It was against this background of economic slack at home and balance of payments deficit abroad that we proposed a Decade of Growth for the Atlantic Community countries at an average annual rate of 4.1 percent increase -- nearly twice what we had averaged since 1953!

It is scarcely surprising that our cables home indicated that the response of some of our European friends was somewhat

degree of interdependence among the developed and the less developed countries.

Admittedly, in 1961 these doubts were not without foundation. From 1953 to 1960 the economic growth rate of the United States had been ~~an appalling~~ a poor 2.4 percent annual average. The nation was just emerging from the fourth postwar recession -- disturbed by the fact that each of the three prior recessions had been followed by shorter and weaker recoveries and that the previous recession had produced the largest peacetime budget deficit in our history. Unemployment was intolerably high. Business investment in new plant and equipment -- its coattails gripped by an outdated tax structure -- was far less then we needed to generate more vigorous economic growth and a stronger competitive position in world markets. Even our own home market was becoming increasingly open to

backing, should be a Decade of Growth. I was looking over our cables to Washington from that Conference the other day, and what came out strongly was the doubt of the Europeans, at that time, that the United States could stir itself out of the economic lethargy into which it had dropped in the 1950s and match the vigor of Europe's economic stride in the 1960s.

Let me diverge for just a moment at this early point to make a necessary clarification. All that we say here tonight about the Atlantic Community -- and I am certain that you will agree, even if the rapid sweep of history has already somewhat outdated your organizational focus -- all that I am saying about the international matrix of sound economic growth applies to the Pacific as well as to the Atlantic side of the Organization for Economic Cooperation and Development. And you will see that in my view there is also an important

REMARKS OF THE HONORABLE HENRY H. FOWLER
AT THE AMERICAN CONFERENCE
ON THE ATLANTIC COMMUNITY AND ECONOMIC GROWTH,
CONVENED BY THE ATLANTIC COUNCIL
AT CROTONVILLE, NEW YORK, DECEMBER 12, 1965

Expansion and Interdependence: The Basic Conditions for Progress in Achieving Atlantic Community Economic Growth

I was present in Paris in the Fall of 1961 at the first Ministerial meeting of the then new Organization for Economic Cooperation and Development -- it had just been created out of the finished works of the Marshall Plan's Organization for European Economic Cooperation.

I look back with pride to the fact that I was a member of the United States delegation that startled the meeting by proposing that the industrialized nations of the Atlantic Community -- Japan was not then, but is now, a member of OECD -- adopt a common goal of 50 percent economic growth during the 1960s.

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TREASURY DEPARTMENT
Washington

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We ask all to join with us in defending this enormous strengthening of the economic base of our national life because it is not something that just happened -- it has happened because public policy in the past few years has been such as to reward private economic enterprise -- business and personal -- with dramatic new incentives that have infused a new dynamic drive into our economy. Let me mention the main elements of this economic policy mix:

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I would like to draw your attention to the character of the policy mix that produced this sustained profit rise for business, sustained income growth for individuals and sustained economic growth and improvement for the nation: it is the result of a mix of policies designed to attack problems of inadequate growth and excessive unemployment, at the same time building in protection against inflation by encouraging increases in capacity to produce and productive efficiency, while we also moved toward equilibrium in our balance of payments.

To these developments in the private sector was joined a judicious program of Federal outlays for the improvement of the quality of American life, most particularly for the expansion and improvement of education, and the reduction of poverty, paid for in a substantial part out of savings resulting from a rigorous program for the control of Federal spending and reduction of government costs at every possible point.

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In the initial four years of the U. S. expansion, wholesale prices remained virtually stable, while consumer prices moved slowly upward, at a rate of 1.2 percent a year, mainly due to selective increases in the costs of services. In the last 12 months, wholesale prices advanced 2.3 percent -- but the larger part of this increase reflected temporary factors affecting food and farm prodcuts. Industrial prices have risen only 1.3 percent over the past 12 months. Thus, compared with earlier U. S. expansions and the performance of other countries, the record remains very good. Contributing to this near stability is the fact that labor costs have moved within the bounds of productivity growth. Indeed, unit labor costs in manufacturing during the third quarter of 1965 were a bit lower than at the start of this expansion, in early 1961.

These policies resulted in an economic expansion that has so well balanced the growth of demand with the growth of capacity to produce and the increase of productivity that we have had a very long period of economic growth and improvement without inflation. This unusual combination of results was made possible by one of the critical -- but too little noted -- elements of the policy mix that underlies the current economic expansion.

This is the fact that, <u>at the earliest stages, emphasis was given to increasing our capacity to produce and to keeping our productive efficiency on the rise and our costs down</u>.

In part, this was accomplished through tax reductions that spurred investment by making investment more profitable. In part also, the early and sustained effort to keep the rise of output in step with the increase of demand -- and thereby avoid a boom-bust situation -- took the form of attacks upon

unemployment and upon low productivity through increased investment in enlarged and more efficient capacity and in the Manpower Retraining Program.

The final element of the mix was also supplied early in the expansion: in the first months of 1962 the Council of Economic Advisers issued wage-price guideposts that have assisted both business and labor in arriving at non-inflationary wage and price decision.

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"There now may be no further slowing down in the aggregate growth rate in 1966. On present trends the year-to-year gain for the OECD area as a whole may be in the 4 to 4.5 percent range. But big differences between different countries, and in particular the divergence of trend between North America and the rest of the area, may well continue."

I do not know what a thoroughgoing examination of the economic policy mix in use in Europe during the last few years would disclose with respect to the fact that Europe's economic expansion is apparently now slipping below the growth goal set for the Decade of Growth.

I do not know if such an examination would indicate that a different policy mix -- one, perhaps, placing less reliance on monetary restraint and more on the use of fiscal policy to balance supply and demand -- would have permitted Europe to achieve the price stability it has sought but has not achieved over the

past several years without sacrifice of growth potential. And of course it should be kept in mind that -- as the OECD study just cited indicates -- experience has varied greatly among the various individua European countries.

It is not appropriate for me to attempt such an examination at this time and place. That is the function of the multilateral surveillance exercises of the OECD committees. What I would like to emphasize is that whatever the results have been in Europe in recent times, they must be attributed to the internal economic policies of the countries concerned, and they are not results -- as has sometimes been alleged, chiefly here in the United States -- of our efforts to restrain dollar outflows so as to eliminate our balance of payments deficits. I set this forth in testimony to the Balance of Payments Subcommittee of the Senate Committee on Banking and Currency in August, in which I said:

"Some concern has been expressed that our program generally might adversely affect liquidity in the international payments system, tend to impede growth of economies abroad, and restrain the desirable expansion of international trade.

"None of this concern has come from the countries concerned. Most of the concern about what we are doing to other countries seems to be here in the United States.

"It is sometimes suggested that the program has seriously aggravated more directly the economic positions of some countries, particularly the United Kingdom, Canada and Japan. Such concerns do not seem to me to be justified by the facts.

"In most of the industrial countries -- more particularly those in Western Europe -- economic expansion continues and the pressure of internal demand remains strong. These governments, relying on restrictive monetary policies to avoid inflation, which I might say were inaugurated long before the President's balance of payments program, some in 1963 and some in 1964, have welcomed our balance of payments measures for the support given to domestic restraints abroad. With respect to these countries -- broadly characterized by strong reserve positions and brisk domestic economic activity amidst varying degrees of inflationary pressure -- there is no basis for any conclusion except that the tools and resources are at hand to strengthen domestic demand, when and if they consider it appropriate to do so."

We submitted to this Subcommittee, chaired by Senator Muskie, a country by country analysis, and an analysis of the provisions in our balance of payments program to protect the economic progress of the less developed countries, from which we concluded that our program;

".... has not damaged the economies of the advanced countries, or dimmed the prospect for flourishing world trade (and that) direct investment in the less developed countries is in no way discouraged."

I would like to turn now to a brief examination of some areas for joint action within the OECD whereby we might hasten the prospects of a sound, strongly growing and interdependent Free World economy, beneficial to each because the benefits of each are the source of gains for all.

SOME AREAS FOR IMPROVEMENT IN THE INTERESTS OF SOUND AND RAPID FREE WORLD ECONOMIC GROWTH

The Need for Freer and More Effective Capital Markets Abroad

One of the first and most fruitful improvements that could be envisioned in the workings of the Free World economy as a whole would result from the creation in Europe and in other advanced countries of a capital market with something approaching the freedom, flexibility, variety of options for the use of funds, and variety of institutions for their placement that exists in the United States.

The inadequacies, the obstacles and the needs existing in capital markets abroad have been spelled out on a number of occasions over recent years. My predecessor Secretary Dillon called attention to this area in a speech before the American Bankers Association meeting in Rome early in 1962 and reemphasized it at the 13th Annual Monetary Conference of the ABA at Princeton this past March. The Treasury submitted in December 1963 a detailed description and analysis of certain European capital markets to the Joint Economic Committee of the Congress as part of the record of hearings held by the Joint Committee in July 1963. In April 1964, a Task Force which I had the honor to chair submitted for the President a report on Promoting Increased Foreign Investment in U. S. Corporate Securities and Inreased Foreign Financing for U. S. Corporations Operating Abroad. This also called attention to the obstacles, inadequacies and needs in foreign capital markets. I would draw attention specifically to recommendations 36, 37, 38 and 39 of that report.

In his March, 1965 speech Secretary Dillon made a number of observations that I will draw upon in some of the following passages:

With rate exceptions foreign financial markets lack a fluid and large short term money market, and long term bond markets are even more restricted. This means that for the most part there is simply no means by which private borrowers and lenders, and even to a considerable extent, governments, can readily raise -- or dispose of -- large sums of money, quickly, in open markets. They are forced, instead, to move with their demands through the bottlenecks of a few big institutions dealing with customers on a personalized basis. These institutionalized markets are so insulated from the short term money markets that they are relatively unresponsive to the actions of monetary authorities.

This deficiency can go so far as to provide us with the spectacle of one European government borrowing abroad to cover a budgetary deficit when it had a balance of payments surplus that it was converting to gold at the expense of United States reserves. And we have also in recent times seen another government send representatives of its nationalized industries, and of government agencies, to borrow in the United States because they could not agree on how to raise needed funds at home, although -- again in the case of this country -- the borrowing country had a balance of payments surplus that it was converting to gold.

It was this structural imbalance in foreign money markets that forced us in 1963 to apply an Interest Equalization Tax on long term portfolio credit to foreigners in developed countries. And it is this structural imbalance that makes it clear that whatever domestic reasons may justify them it would be folly for us to try to staunch the flow of United States funds abroad by restrictive monetary policies aimed at raising interest rates in this country to the structured high levels of the countries of Western Europe, and of Japan. Foreign borrowers were not daunted by two rises in the United States discount rate, in July 1963 and in November 1964. Before the latest increase in the Reserve System's discount rate a few days ago the gap was as big, if not bigger, than it was previous to the 1963 rise in the U. S. discount rate. And it appears from current reports that rises in interest rates in Western Europe will rapidly wipe out any temporary narrowing of the gap which might have resulted from the recent action of the Federal Reserve Board. Long before we could level rates here and abroad through this process, we would drive this country into a recession that would reduce the attractiveness of investment here and increase the attractiveness of investment abroad, aggravating rather than improving our balance of payments position.

But action the other way around could help, and we should be gratified that some progress is being made.

The various efforts publicly made that I referred to earlier were paralleled by efforts in Working Party 3 of the OECD to get that organization to grip the problem and give it long deserved attention. We were gratified when the OECD Ministers at their annual meeting in November 1964 agreed that the organization should undertake to study the ways in which the OECD could assist countries in increasing the efficiency of their capital markets, and of reducing restrictions. Since then the problem has been under review by three groups of experts set up by the Committee on Invisibles. This Committee is to receive the reports early next year on sources of savings, the channels for their transfer into productive investment and the use of savings, among the various countries.

This is progress -- but at a disappointingly slow pace. Every effort must be made to step up the pace and to insure that appropriate recommendations are given attention at high levels of policy decisions so that they are translated into action as promptly as possible. Only then can we move, as we should, boldly into a Free World where capital can flow freely in international markets attuned to the needs of today and tomorrow. Those needs are both urgent and deserving of attention.

Until there are great improvements in capital markets abroad, the United States will be hampered in its efforts to bring its foreign payments into sustainable equilibrium without some interferences with the free flow of funds. While U. S. private internal money markets are efficient and relatively free of controls, and European markets are controlled or inefficient -- or both -- there will be -- lacking conscious restraint on our part -- a strong tendency for the rigidities and insensitivities of Europe's capital markets to impel excessive resort to U. S. capital markets by both developed and less developed countries.

Reduction and Removal of Tax Barriers to Trade and Investment

A simple tax law can nullify the most liberal trade and investment policy, and simple tax laws often do so. Taxes are one of the major non-tariff barriers to increasing the economically desirable exchange among nations of their goods and services. United States taxation of foreign investors is a major restraint on the flow of foreign investment funds to this country, and that flow needs to be increased to help right our balance of payments.

A Free World looking to the growth of international trade and of international investment as major factors promoting sound economic growth, and the improvement of living standards, needs to sweep away the tax barriers to trade and investment.

As I have already indicated, I was privileged to head a Task Force established by President Kennedy as part of his program for bringing our balance of payments deficits to an end, and continued by President Johnson. Our Task Force was charged with developing programs to promote increased foreign investment in United States corporate securities and increased foreign financing for United States corporations operating abroad. A major part of our recommendations dealt with means for simplifying, reducing or eliminating taxation, here and abroad, standing in the way of the development of a stronger and deeper Free World interdependent economy. As examples of the type of action needed to clear away the barriers in this area let me cite our main conclusions.

The United States government should proceed unilaterally to reduce or eliminate a number of tax obstacles to investment in the United States. We should not wait upon the negotiation of reciprocal action by other countries on their impediments to the sale of dollar securities abroad because this is a slow process and we need to get the balance of payments benefits quickly. We accompanied this with a series of seven recommendations for specific tax actions aimed at making foreign investment in United States corporate securities easier and more profitable.

Many of the improvements our Task Force recommended are embodied in new income tax treaties the United States is now negotiating in the course of an extensive revision of its income tax agreements with developed countries, prompted by recent changes in the corporate tax systems of the European countries and the adoption in 1963 by the OECD of a Model Income Tax Convention. The pattern emerging from these negotiations provides a widened flexibility to international trade and investment activities between the United States and Europe.

The elimination of all sorts of non-tariff barriers to trade, including elimination of tariffs disguised as taxes, is one of the major objectives of United States negotiators in the current, Kennedy Round, talks with our trade partners for world trade liberalization.

The Reduction of Barriers to the Freer Flow of International Trade

This Kennedy Round of trade talks now going on at Geneva -- so called because the talks were made possible by new tariff reduction authority granted by the Congress to the President at President Kennedy's request -- is the boldest approach to multilateral liberalization of barriers to international trade which the United States has ever undertaken. We are firmly committed to bring this historic effort to a successful conclusion.

Thus far in the negotiations we have exchanged offers for an unprecedented 50 percent reduction in tariffs on a broad range of industrial products. In agricultural products, initial offers were exchanged in September of this year. The European Economic Community was unable to join in this exchange, but the other participants maintained the previously agreed schedule with the understanding that the EEC would make its offers as soon as practicable.

One of our objectives in the Kennedy Round is to maximize trade benefits to the exports of the less developed countries, and we are now actively engaged in talks for this purpose with more than 20 developing nations. I would like to state that there are wide benefits for such countries in the offers which the United States has put down.

In addition, we are conscious of the danger that the effect of significant tariff reductions could be impaired or nullified by non-tariff barriers. Such trade barriers, as I stated above, are therefore an important sector of the negotiations.

If we hope to secure reduction of barriers to our exports, we must be prepared to liberalize U. S. practices which our trading partners view as barriers to their exports. Mutual concessions are the key to the success of the Kennedy Round. And the success of the Kennedy Round is a matter of highest importance to the continued economic strength of the Free World.

At a time when centralized governmental planning and direction of economic development is practised even in some of the industrialized nations of the West, the winds of competition from international trade become particularly important. In these circumstances, competitive international trade is rapidly becoming not only the best, but in a growing number of instances, it is almost the only reliable manner of testing the costs of labor and capital, of measuring relative

efficiency, and of indicating where investment is needed, where it is already sufficient or in surplus, and what movements are justified in prices and wages.

Should the Kennedy Round aim of greatly reducing tariffs and other impediments to international trade competition fall victim to economic nationalism or regionalism, the Free World stands in danger of growing economic distortion and inefficiency perpetuated by an inward looking illusion that all is well. In these conditions, some economic growth can, of course continue. But judged by the standards of the rapidity of economic growth, and the stability and the widespread real benefits to be gained from growth taking place under competitive conditions, the advances under restrictive conditions will be niggling, the benefits will tend to be more illusory than real due to disguised inflation, and, worst of all, the Free World will tend to pull apart into a congeries of closed units huddled up each with its own protective system, each unaware that it is lagging far behind its potential because it permits no comparisons.

If there are any here who take this as a flight of the imagination, I invite them to take a look at the nations -- each imprisoned with its own central plan -- of the marxist persuasion, where the abolition of competition in all of its creative forms has worked precisely such a miserable result as I have just been describing. It _can_ happen to the Free World, and it is not even necessary to be marxist -- the immense benefits of market competition can be lost just as easily without doctrine as with its guidance.

The Need for New International Monetary Arrangements

The Free World can help to assure continuing economic growth by reaching decisions at an early date that will provide for creating a supplementary form of international reserve asset, to ensure that there can be an adequate increase in world monetary reserves in the future.

World monetary reserves increased during the six years, 1958 to 1964, by approximately $17 billion, and nearly $13 billion of this amount was in the form of dollar reserves. Such a large addition to the official dollar holdings of foreign countries was made possible by our large balance of payments deficits.

As our balance of payments moves into equilibrium, we will no longer supply the rest of the world with large annual additions to reserve holdings. Without an alternative source for growth in world reserves, the pace of the world's economic growth in the future could be endangered.

Here again, as with international trade, unless we commit ourselves to growing interdependence -- and look to interdependence to insure our growth -- there are potential dangers of Free World fragmentation. If the limited supplies of new gold production are not supplemented by arrangements to create additional reserve assets, countries finding that their reserves are not increasing -- while the economic expectations of their people do increase -- may drift, consciously or unconsciously, into restrictive domestic and external policies.

To provide for continued economic growth in the Atlantic Community we must find the feasible means of assuring that reserves or credits will be available to deficit countries in amounts and on terms that are consistent with the realities of the adjustment process in a world of fixed parities where sharp deflation or "stop-go" patterns of economic growth are not acceptable alternatives.

There is no simple statistical test for the adequacy of reserves. However, it is worth noting that even the very large aggregate additions to reserves of foreign countries, outside the United States, during the past six years, did not avoid a moderate decline in the ratio of reserves to the annual value of imports. Reserves stood at 41 percent of trade value in 1958 but fell to 38 percent in 1964.

Representatives of what is known as the Group of Ten -- ten leading industrial nations of the West -- are currently seeking a basis of agreement on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets and credits as and when needed. This work is going forward on an accelerated schedule, and a report on the progress made has been requested by the Ministers in the Spring of 1966. When these major countries shall have found a basis for agreement, I have urged -- and my colleagues in the Group have agreed -- that there should be a second stage, to permit broader consideration of questions that affect the world economy as a whole, including the developing countries as well as the advanced countries.

President Johnson gave the Annual Meeting of the International Monetary Fund in October, a thumbnail assessment of this situation that is highly accurate for all its brevity. He said:

"This is not a matter of an immediate crisis, but it is a matter on which we must begin to act -- now. We must begin now to provide machinery for the creation of additional reserves. Gold alone will not be enough to support the healthy growth the entire world demands."

The Interdependence of the Developed and Less Developed Countries

The interdependence of the world in which we live is not a simple two way street running among the developed nations. There are many side streets, and they lead off from our well lit world glowing with promise into dark precincts where poverty is the rule. The developed countries are not independent from the less developed world because, in the first place, the less developed world is part of mankind, and so long as part of mankind is sick, we cannot count ourselves completely well, or safe from the same sickness.

We are economically interdependent with this world because it provides us with most of our raw materials, and because, as its markets grow, it will increasingly be an outlet for our ever increasing ability to produce goods and services.

And we are interdependent with this world because we want it to remain open for the development of the ways of freedom that have made us strong and that offer the best hope for a future world strongly knit together, in peace, by shared economic and social progress.

But it is not enough simply to realize that we have compelling reasons for assisting the less developed nations toward a better life, to succeed in helping them.

For one thing, the task is so gigantic that we need a much greater commitment to the sharing of the task among the developed nations than we have had, if we can hope to make visible progress with it.

There have been many estimates of what is needed to support adequate growth in the developing countries. In 1964 some $6 billion in net disbursements of official aid went from the industrial to the developing countries and the flow of private long term finance added another $2.9 billion. What of the future?

The annual Report of the World Bank gives a staff estimate that some $3 to $4 billion a year more than present flows of development finance could be effectively used. I am not going to give or endorse any specific estimates, but the magnitude of the task is, to say the least impressive. So also is the magnitude of external debt problems. From $10 billion in 1956, outstanding international debt of developing countries reached an estimated 33 billion. The amount of foreign exchange needed annually to service this debt rose even faster -- from $800 million to $3.5 billion. It can be expected to rise even more rapidly in the future.

I believe that one of the major advances in international cooperation in development assistance is to be found in exploitation of one of the facets of the international monetary situation we have just been discussing. I noted that there has been a vast outflow of dollars in recent years, and that these dollars that have lodged abroad represent our balance of payments deficits.

To a considerable extent, they show up in the accounts of other countries as balance of payments surpluses.

I repeat now what we have suggested before: one of the major elements in a long term solution to the world payments problems lies in finding better means of placing balance of payments surpluses back into circulation. One of these better usages of payments surpluses, I suggest, would be found in increased commitments by surplus countries to development assistance.

There are many concrete channels for increased cooperation. The International Development Association, for example, was brought into being to meet some of the urgent needs I have described. On a multilateral level, it mobilizes resources from the developed countries to less developed and does so on the kind of easy repayment terms that makes sense in providing means for development consistent with the amounting burden of debt repayments by the less developed countries. We have done, and hope to continue to do, our part in this worthwhile, sound affiliate of the World Bank. We look for others to share more in this endeavor and we are willing to consider doing more provided that the burden sharing by others is forthcoming.

In the light of the realities of international finance, ways and procedures should be found to reflect the willingness of the developed countries to shoulder these larger commitments, subject to the condition that when the time to fulfill them arrives, the expanded obligations need not be performed by those developed countries in serious balance of payments difficulties. This type of arrangement, looking toward the acceptance of increased development aid responsibilities by surplus countries, makes sense from both international monetary and development standpoints.

There are other ways -- bilateral and through the regional financial institutions -- in which needs can be met. Not one alone, or two -- but all those in a position should see how best to respond to the need and to share realistically in the response.

One of these responsibilities, and one, I may add that is not at present being adequately shared by the advanced countries of Western Europe, is presented by the Asian Development Bank. In Manila on December 4, more than 20 Asian, American and European

founding nations signed the new Bank's Charter, but left the books open until January 31 for other countries to become founding members, and for those who have already signed to increase their subscriptions so as to bring the capital of the Bank up to the full authorized figure of $1 billion.

The Asian nations have accepted responsibility for $650 million of the authorized capital, and are very near to that mark. Of this, Japan has pledged $200 million. Of the remaining $350 million, the United States has accepted responsibility for $200 million and pledges have been made by Germany, Canada, the Netherlands, Italy, the United Kingdom, Belgium and Denmark. However, these non-regional pledges are not sufficient to fill out the $1 billion authorized capital needed to launch this highly important new venture in East-West interdependence with the funds it should have to start its work.

In sending the United States delegation to Manila to sign the Charter of the Asian Development Bank, President Johnson said:

"I regard the organization of this great new institution as one of the most hopeful events of our times because the Asian Development Bank has been put together by Asians, and because they themselves are contributing the greater part of its capital and will direct its lending for development in Asia.

"Even so, I should note that the problems of Asia are of an order and a diversity requiring the widest possible participation in their solution by the economically better developed nations. Consequently, it is my hope that the industrialized nations that have not yet signified their support of the Asian Development Bank will do so, and that other nations will carefully assess the adequacy of their capital subscriptions."

I think that you will agree with me when I say that it is not too much to expect that this hope will be fulfilled.

A Valuable Public Agent for Private Economic Growth in the Atlantic Community -- the OECD

A good deal has been said in my remarks about the Organization for Economic Cooperation and Development. What has been said reflects the fact that this Organization fills an essential spot, and does vital work, in the Atlantic Community and the Free World.

I think the OECD's work -- and its even greater potential as we come ever closer to grips with the problems and possibilities of interdependent Atlantic Communtiy and Free World development -- are

so important that we should be certain that it is as capable as we can make it. To this end, I am wondering if the time may not have come for the member nations to take a new look at OECD, after the passage of nearly five years, with the objective of making any institutional changes that such an examination might suggest, and also with the objective of giving the OECD new working instructions fully in keeping with conditions and opportunities as they are now, and as they seem to be developing.

A Valuable Private Agent of Interdependent Economic Development: the Multinational Company

Let me close now by getting down to the working force that has to accomplish most of the international interdependent economic development -- among developed as well as among less developed countries This is the multinational company.

If we place some restraints upon the dollar outflow of United States multinational companies now, it is only because it is temporarily necessary to do so in order that they may continue to function in a safe and healthy world environment. Unless the dollar remains sound -- and it cannot do so if great surplus pools of dollars develop around the world as the result of chronic United States payments deficits -- unless the dollar remains strong, American corporations cannot remain strong. And unless we continue with the economic and military assistance around the world that creates a better environment for all of us to live and work and for private institutions to flourish, the investments of our multinational companies cannot be regarded as sound enterprises. So the fact of life is, that the multinational company, valuable as its contribution is, must be willing to moderate its activities on a temporary basis sufficiently to help pay the costs of maintaining a safe and sound world.

Today, we have all come to a far greater appreciation of the importance of the private sector in our nation's role as a leader in world affairs -- especially of the importance of our multinational companies. It is difficult to overstate their importance to continued growth in the Free World economy -- particularly among the less developed nations.

The expansion of international trade, the freedom of money to flow across national boundaries, the welcome extended to foreign business units, the stimulating effect of broadened competition, and the spread of technical and organizational knowledge -- these hallmarks of multinational business have helped to bring an expanding, more integrated and efficient structure to the West since World War II.

And there is no doubt that, given these same conditions, plus some reasonable assurance against state confiscation, state competition and discrimination against foreign enterprise, the multinational corporations can make significant contributions to the emergence of viable and free economic societies in the less developed countries.

But certain facts must be faced. In many of the less developed countries, the rising tide of nationalism mixed with state intervention or discrimination in varying degrees has created an uncongenial atmosphere for multinational private business. Indeed, the same trend is evident in some of the developed countries where multinational companies have become well established.

So today -- with multinational business at an all-time peak, and the multinational corporations of the developed countries who are members of the Organization for Economic Cooperation and Development possessed of the greatest potential for international economic development in history -- the dangers and opportunities match each other in equal challenge.

I think this brings us to a good parting point.

We are interdependent, as countries, as developed and less developed worlds, and as public and private sectors.

If we have learned anything about the solution of economic problems, one of the great lessons is that lasting progress arises out of expanded economic resources.

What we need for the development of a stronger Free World -- including,at the very heart, a stronger Atlantic Community -- is to put these lessons together. Let us develop our trade and our investment policies, public and private, in ways that permit the maximum sound economic expansion, as a growing pool of economic resources for the use of each of us for the benefit of all of us.

And let us, in realization of our interdependence, continue that development of international cooperation and collaboration that has become the hallmark of the Free World in the last few decades, to the end that we bind ourselves ever more firmly into a matrix of peaceful progress and development, open to an ever widening membership of countries willing to believe that their maximum individual benefits will be found in the maximum common gain.

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

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

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public anouncement 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 Bank on December 23, 1965 {X6}, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 23, 1965 {X7}. 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 t

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE,

December 13, 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 December 23, 1965, in the amount of $2,202,105,000, as follows:

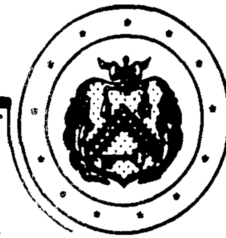
91-day bills (to maturity date) to be issued December 23, 1965, in the amount of $1,200,000,000, or thereabouts, representing an additional amount of bills dated September 23, 1965, and to mature March 24, 1966, originally issued in the amount of $1,000,491,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated December 23, 1965, and to mature June 23, 1966.

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, December 17, 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 decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



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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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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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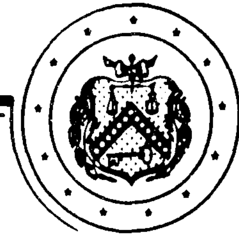
TREASURY DEPARTMENT



WASHINGTON, D.C.

ɛELEASE 6:30 P.M.,
y, December 13, 1965.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced today that the tenders for two series of Treasury
;, one series to be an additional issue of the bills dated September 16, 1965, and the
series to be dated December 16, 1965, which were offered on December 8, were opened
ie Federal Reserve Banks on December 13. Tenders were invited for $1,200,000,000, or
ɛabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills.
letails of the two series are as follows:

; OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing March 17, 1966		182-day Treasury bills maturing June 16, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.898 a/	4.360	97.716 b/	4.518%
Low	98.884	4.415	97.685	4.579%
Average	98.890	4.391 1/	97.698	4.553% 1/

Excepting 2 tenders totaling $327,000; b/ Excepting 3 tenders totaling $3,350,000
percent of the amount of 91-day bills bid for at the low price was accepted
percent of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 23,201,000	$ 23,201,000	$ 20,041,000	$ 20,041,000
York	1,396,982,000	721,447,000	1,227,527,000	623,527,000
ladelphia	31,092,000	21,092,000	20,034,000	14,034,000
veland	30,403,000	30,403,000	53,953,000	48,953,000
hmond	16,918,000	16,918,000	5,159,000	5,159,000
anta	46,250,000	38,700,000	32,229,000	32,029,000
cago	275,823,000	140,638,000	248,112,000	113,112,000
Louis	55,323,000	48,473,000	28,041,000	25,541,000
neapolis	19,514,000	19,514,000	11,676,000	11,676,000
sas City	26,295,000	25,295,000	15,385,000	15,185,000
las	24,862,000	16,862,000	12,716,000	9,716,000
Francisco	111,838,000	98,338,000	109,680,000	81,180,000
TOTALS	$2,058,501,000	$1,200,881,000 c/	$1,784,553,000	$1,000,153,000 d/

cludes $279,614,000 noncompetitive tenders accepted at the average price of 98.890
cludes $132,161,000 noncompetitive tenders accepted at the average price of 97.698
a coupon issue of the same length and for the same amount invested, the return on
ɜse bills would provide yields of 4.50%, for the 91-day bills, and 4.72%, for the
2-day bills. Interest rates on bills are quoted in terms of bank discount with
return related to the face amount of the bills payable at maturity rather than
amount invested and their length in actual number of days related to a 360-day
ır. In contrast, yields on certificates, notes, and bonds are computed in terms
interest on the amount invested, and relate the number of days remaining in an
ɜerest payment period to the actual number of days in the period, with semiannual
ıpounding if more than one coupon period is involved.

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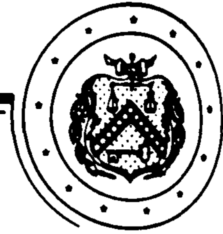
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 13, 1965

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES SCHEDULE
FOR NEXT REGULAR WEEKLY BILL AUCTION

The Treasury announced today that its next regular weekly bill auction will be held on Friday, December 17, instead of the following Monday. Delivery of the $1.2 billion of 3-month bills and $1.0 billion of 6-month bills will be made on the normal day, Thursday, December 23. The Treasury said the auction was advanced to assure ample time between the auction and delivery during the pre-holiday season.

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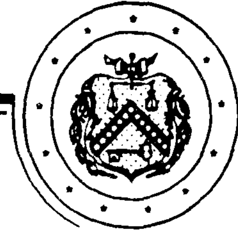
F-305

TREASURY DEPARTMENT



WASHINGTON, D.C.

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F-305

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, 1965, to Dec. 13, 1965	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965 to Dec. 13, 1965
United Kingdom	4,323,457	-	1,441,152	-
Canada	239,690	-	-	-
France	227,420	-	75,807	-
India and Pakistan	69,627	-	-	-
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	-	25,443	-
Italy	21,263	-	7,088	-
Other, including the U.S.	-	-	-	-
	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

F-306

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 15,1965

F-306

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, 1965 - December 13, 1965

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	-
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	18,011
Brazil	618,723	-
Union of Soviet Socialist Republics	475,124	-
Argentina	5,203	-
Haiti	237	-
Ecuador	9,333	-

Country of Origin	Established Quota	Imports
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, 1965 - December 13, 1965

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	36,423,974
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	175,594
1-1/8" or more and under	4,565,642	1,370,733

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 15, 1965

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Other, including the U.S.	-	-

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Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1965, to Dec. 13, 1965	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965 to Dec. 13, 1965
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Canada....................	239,690	-	-	-
France....................	227,420	-	75,807	-
India and Pakistan........	69,627	-	-	-
Netherlands...............	68,240	-	22,747	-
Switzerland...............	44,388	-	14,796	-
Belgium...................	38,559	-	12,853	-
Japan.....................	341,535	-	-	-
China.....................	17,322	-	-	-
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Germany...................	76,329	-	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U.S..	-	-	-	-
	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

F-306

Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 4, 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, 1965	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1965	1,709,000	Pound	1,007,332 1/

1/ Imports as of December 13, 1965.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, DECEMBER 15, 1965

F-307

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 December 4, 1965:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 4, 1965
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	1,088,532
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	53
Cattle, 700 lbs. or more each (other than dairy cows) ...	Oct. 1, 1965 - Dec. 31, 1965	120,000	Head	37,794
Cattle. less than 200 lbs. each	12 mos. from April 1, 1965	200,000	Head	66,042
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,383,589	Pound	Quota filled
Tuna Fish	Calendar year	66,059,400	Pound	43,649,271
White or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1965	114,000,000	Pound	27,691,025
Other		45,000,000	Pound	3,459,430
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1965 - Oct. 31, 1966	69,000,000	Pieces	Quota filled

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 15, 1965

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Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 4, 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, 1965	1,000	Pound	-
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1965	1,709,000	Pound	1,007,332 1/

1/ Imports as of December 13, 1965.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, DECEMBER 15, 1965

F-308

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1965, to December 4, 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 Dec. 4, 1965
Buttons	510,000	Gross	420,430
Cigars	120,000,000	Number	8,287,431
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	5,330,719
Tobacco	3,900,000	Pound	3,831,221

TREASURY DEPARTMENT
Washington

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TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 15, 1965

F-309

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. 1/

QUARTERLY QUOTA PERIOD - October 1, 1965 - December 31, 1965

IMPORTS - October 1, 1965 - November 19, 1965 (or as noted)

Country of Production	ITEM 925.01* 2/ Lead-bearing ores and materials		ITEM 925.03* 3/ Unwrought lead and lead waste and scrap		ITEM 925.02* 2/ Zinc-bearing ores and materials		ITEM 925.04* 3/ 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	9,455,205	-	-	-	-
Belgium and Luxemburg (total)	-	-	-	-	-	-	7,520,000	4,559,219
Bolivia	5,040,000	531,962	-	-	-	-	-	-
Canada	13,440,000	13,440,000	15,920,000	12,933,019	66,480,000	66,480,000	37,840,000	37,840,000
Italy	-	-	-	-	-	-	3,600,000	-
Mexico	-	-	36,880,000	25,660,352	70,480,000	10,018,289	6,320,000	5,123,505
Peru	16,160,000	12,011,477	12,880,000	6,522,771	35,120,000	173,427	3,760,000	1,899,449
Republic of the Congo (formerly Belgian Congo)	-	-	-	-	-	-	5,440,000	5,163,267
**Un. So. Africa	14,880,000	14,880,000	-	-	-	-	-	-
Yugoslavia	-	-	15,760,000	7,767,626	-	-	-	-
All other countries (total)	6,560,000	2,048,570	6,080,000	6,080,000	17,840,000	17,840,000	6,080,000	6,080,000

*See Part 2, Appendix to Tariff Schedules.
**Republic of South Africa.

1/ Quotas terminated by Presidential Proclamation No. 3683 of October 22, 1965.

2/ Terminated October 22, 1965.

3/ Terminated November 21, 1965.

PREPARED IN THE BUREAU OF CUSTOMS

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, DECEMBER 15, 1965

F-309

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IMPORTS - October 1, 1965 - November 19, 1965 (or as noted)

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Bolivia	5,040,000	531,962	-	-	-	-	-	-
Canada	13,440,000	13,440,000	15,920,000	12,933,019	66,480,000	66,480,000	37,840,000	37,840,000
Italy	-	-	-	-	-	-	3,600,000	-
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**Republic of South Africa.

1/ Quotas terminated by Presidential Proclamation No. 3683 of October 22, 1965.

2/ Terminated October 22, 1965.

3/ Terminated November 21, 1965.

PREPARED IN THE BUREAU OF CUSTOMS

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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ıanking institutions will not be permitted to submit tenders except for their own ıccount. 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 ıf 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 Re- erve Banks and Branches, following which public announcement will be made by the reasury Department of the amount and price range of accepted bids. Those submit- ing 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 ɔ these reservations, noncompetitive tenders for $200,000 (XXX) or less without tated price from any one bidder will be accepted in full at the average price (in ıree decimals) of accepted competitive bids. Settlement for accepted tenders in ːcordance with the bids must be made or completed at the Federal Reserve Bank on cember 31, 1965 (XX), in cash or other immediately available funds or in a like ıce amount of Treasury bills maturing December 31, 1965 (XX). Cash and exchange ːnders will receive equal treatment. Cash adjustments will be made for differ- ıces between the par value of maturing bills accepted in exchange and the issue 'ice of the new bills.

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, **December 16, 1965**

XXXXXXXXXXXXXXXXXXXXXXXXXXXXX.
(X)

TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $ **1,000,000,000** (XX), or thereabouts, of **365** (X)-day Treasury bills, for cash and in exchange for Treasury bills maturing **December 31, 1965** (X), in the amount of $ **1,002,951,000** (XX), to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated **December 31, 1965** (X), and will mature **December 31, 1966** (X), 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, December 23, 1965** (X). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that these bills will run for **365** (X) 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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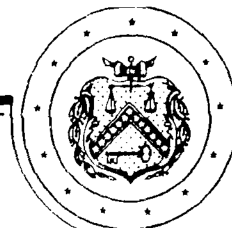
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 16, 1965

FOR IMMEDIATE RELEASE

TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 365-day Treasury bills, for :ash and in exchange for Treasury bills maturing December 31,1965, in :he amount of $1,002,951,000, to be issued on a discount basis under :ompetitive and noncompetitive bidding as hereinafter provided. The)ills of this series will be dated December 31,1965, and will mature)ecember 31,1966, when the face amount will be payable without interest. They will be issued in bearer form only, and in lenominations of $1,000, $5,000, $10,000, $50,000, $100,000, ;500,000 and $1,000,000 (maturity value).

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less 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 December 31, 1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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 the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

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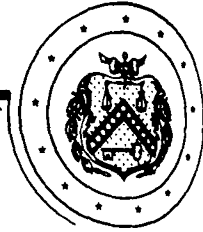
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 16, 1965

FOR IMMEDIATE RELEASE

BENJAMIN CAPLAN NAMED
DIRECTOR OF PLANNING AND PROGRAM EVALUATION

Acting Secretary of the Treasury, Joseph W. Barr, today announced the selection of Benjamin Caplan as Director of the Department's new Office of Planning and Program Evaluation. Mr. Caplan will be under the policy direction of the Secretary and Under Secretary, reporting through the Assistant Secretary for Administration. He will be responsible for developing a positive and systematic evaluation of all Treasury programs with a view to maximum cost consciousness. The establishment of this Office within Treasury is in compliance with the President's directive for an integrated Planning-Programming-Budgeting System in the Executive Branch.

Mr. Caplan was born in Canada on February 9, 1909. He earned his B.A. and M.A. Degrees in Economics from McGill University, and his Ph.D. in Economics from the University of Chicago.

He is currently serving as Director, Office of International Monetary Affairs in the State Department. His previous Government service has been as an Economist for the War Production Board, the Office of Price Administration and the Council of Economic Advisors. He also served as Chief, Wartime Requirements and Supply, Office of Defense Mobilization, and as an International Economist, Office of Civil and Defense Mobilization.

Mr. Caplan's non-government experience includes: Instructor in Economics at Ohio State University; Assistant Director of Research and Statistics, Schenley Industries, Inc., New York; Economic Consulting, Boni, Watkins, Jason and Co., New York; Research Associate, Institute for Defense Analyses, Washington, D. C.

Mr. Caplan is married and resides at 4201 Cathedral Avenue, N.W., Washington, D. C. He is expected to enter on duty in January.

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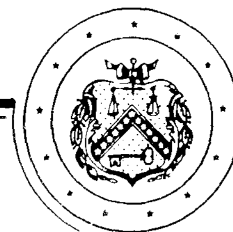
TREASURY DEPARTMENT



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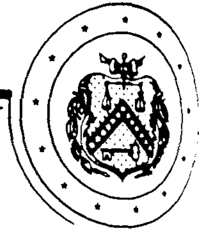
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 16, 1965

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
CERAMIC GLAZED WALL TILE

On December 9, 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 ceramic glazed wall tile imported from Japan is being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

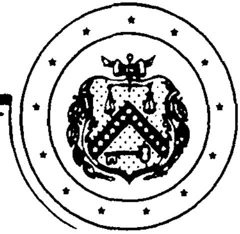
In order to establish the validity of the information, the Bureau of Customs is instituting an inquiry pursuant to the provisions of section 14.6(d)(1)(ii), (2) and (3) of the Customs Regulations.

The information was submitted by Howrey, Simon, Baker & Murchison, Washington, D. C., on behalf of the Ceramic Tile Manufacturers of the United States.

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.

Imports of the involved merchandise received during the year 1964 amounted to approximately $8,138,000.

TREASURY DEPARTMENT



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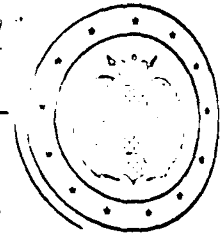

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Friday, December 17, 1965.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced today that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated September 23, 1965, and the other series to be dated December 23, 1965, which were offered on December 13, were opened at the Federal Reserve Banks on December 17. 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 March 24, 1966		:	182-day Treasury bills maturing June 23, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.875	4.451%	:	97.640 a/	4.668%
Low	98.857	4.522%	:	97.622	4.704%
Average	98.861	4.505% 1/	:	97.628	4.692% 1/

a/ Excepting 3 tenders totaling $535,000
90 percent of the amount of 91-day bills bid for at the low price was accepted
58 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	$ 49,188,000	$ 49,188,000	:	$ 27,268,000	$ 11,268,000
New York	1,467,391,000	725,091,000	:	1,440,182,000	519,932,000
Philadelphia	24,535,000	12,535,000	:	16,534,000	8,534,000
Cleveland	26,434,000	26,434,000	:	79,307,000	38,477,000
Richmond	9,759,000	9,759,000	:	5,013,000	5,013,000
Atlanta	37,735,000	29,435,000	:	44,812,000	27,537,000
Chicago	378,510,000	180,800,000	:	380,967,000	107,667,000
St. Louis	41,396,000	33,936,000	:	32,719,000	24,419,000
Minneapolis	15,772,000	12,622,000	:	9,064,000	5,064,000
Kansas City	29,351,000	29,351,000	:	15,922,000	11,956,000
Dallas	23,276,000	14,276,000	:	12,573,000	6,173,000
San Francisco	95,244,000	77,044,000	:	314,896,000	234,056,000
TOTALS	$2,201,591,000	$1,200,471,000 b/		$2,379,257,000	$1,000,096,000

b/ Includes $212,150,000 noncompetitive tenders accepted at the average price of 98.8
c/ Includes $112,448,000 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 on these bills would provide yields of 4.62%, for the 91-day bills, and 4.87%, for the 182-day bills. Interest rates on bills are quoted in terms of bank discount with the return related to the face amount of the bills payable at maturity rather than the amount invested and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

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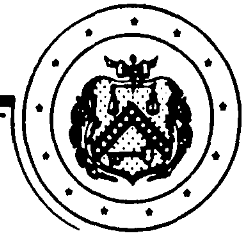
TREASURY DEPARTMENT



WASHINGTON, D.C.

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Low	98.857	4.522%	:	97.622	4.704%
Average	98.861	4.505% 1/	:	97.628	4.692% 1/

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TOTALS	$2,201,591,000	$1,200,471,000 b/		$2,379,257,000	$1,000,096,000 c/

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F-312

BETA - MODIFIED

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.

XXXXXXXXXXXXXXXX

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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 bil applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, December 20, 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 December 30, 1965 , in the amount of $ 2,200,007,000 , as follows:

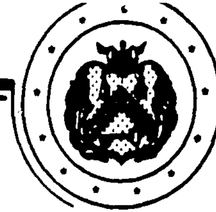
91 -day bills (to maturity date) to be issued December 30, 1965 , in the amount of $ 1,200,000,000 , or thereabouts, representing an additional amount of bills dated March 31, 1965 , and to mature March 31, 1966 , originally issued in the amount of $ 1,000,304,000 (an additional $999,818,000 was issued September 30, 1965), the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued December 30, 1965, in the amount of $1,000,000,000, or thereabouts, representing an additional amount of bills dated June 30, 1965, and to mature June 30, 1966, originally issued in the amount of $1,000,647,000, the additional and original bills to be freely interchangeable.

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, December 27, 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 decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



WASHINGTON, D.C.

December 30, 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.

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 Bank on December 30,1965, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 30,1965. 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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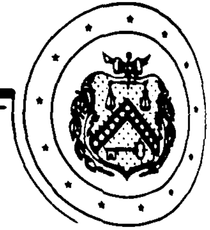
TREASURY DEPARTMENT



WASHINGTON, D.C.

December 20, 1965

FOR IMMEDIATE RELEASE

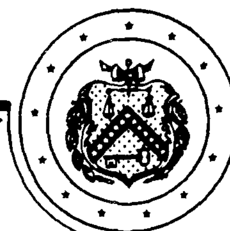
TREASURY DECISION ON FERROCHROMIUM
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that ferrochromium, not containing over 3 percent by weight of carbon, from Norway, is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. A "Notice of Tentative Determination," was published in the Federal Register on October 26, 1965.

No written submissions or requests for an opportunity to present views in opposition to the tentative determination were presented within 30 days of the publication of the above-mentioned notice in the Federal Register.

Imports of the involved merchandise received during the period June 1, 1964, through September 30, 1965, amounted to approximately $900,000.

TREASURY DEPARTMENT



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Imports of the involved merchandise received during the period June 1, 1964, through September 30, 1965, amounted to approximately $900,000.

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 pruchase, 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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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.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this additional issue at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Wednesday, December 29, 1965.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $ 200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on January 5, 1966 provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

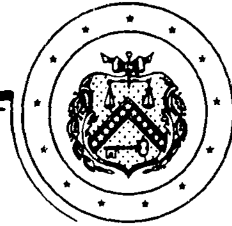
December 22, 1965

TREASURY OFFERS ADDITIONAL $1 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for $1,000,000,000 or thereabouts, of 168-day Treasury bills (to maturity date), to be issued January 5, 1966, on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be designated Tax Anticipation Series and represent an additional amount of bills dated October 11, 1965, to mature June 22, 1966, originally issued in the amount of $1,002,548,000 (an additional $2,513,229,000 was iss November 24, 1965). The additional and original bills will be freely interchangeable. They will be accepted at face value in paym of income taxes due on June 15, 1966, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of June 15, 1966 income taxes have the privilege of surrendering them to any Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more th fifteen days before June 15, 1966, and receiving receipts therefor showing the face amount of the bills so surrendered. These receipts may be submitted in lieu of the bills on or before June 15, 1966, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills 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, Wednesday, December 29, 1965. Tende 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., 99.92 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.

TREASURY DEPARTMENT



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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.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this additional issue at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Wednesday, December 29, 1965.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on January 5, 1966, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

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.

FOR IMMEDIATE RELEASE

December 22, 1965

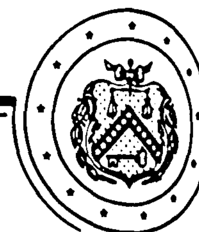
TREASURY ANNOUNCES FINANCING PLANS

The Treasury today announced the auction of an additional $1 billion of tax anticipation bills due June 22, 1966, which may be used at face value in payment of taxes due June 15, 1966. The auction will be on December 29, 1965, for payment January 5, 1966, and commercial banks will be permitted to pay for the bills through crediting of tax and loan accounts. This additional issue will increase the June 1966 tax anticipation bills to $4.5 billion.

At the same time the Treasury said it plans to raise additional cash by a $100 million increase in the $1.2 billion regular weekly three-month bill issue, starting with the auction on January 3, and probably running through a full 13-week cycle. The Treasury also indicated that it plans to make another cash offering in January of about $1.5 billion in the short-term area. These borrowings will cover the bulk of the Treasury's cash need for the second half of the current fiscal year, estimated at about $5 billion.

This borrowing program, along with the pay-off of March and June tax anticipation bills, will result in a net reduction in the marketable debt between now and the end of the fiscal year.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Thursday, December 23, 1965.

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced today that the tenders for $1,000,000,000, or thereabouts, of 365-day Treasury bills to be dated December 31, 1965, and to mature December 31, 1966, which were offered on December 16, were opened at the Federal Reserve Banks on December 23.

The details of this issue are as follows:

Total applied for - $2,720,269,000
Total accepted - $1,000,834,000 (includes $52,299,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting 2 tenders totaling $900,000)

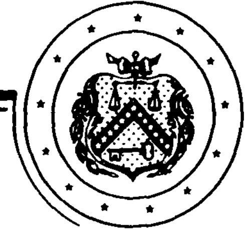
High	- 95.215	Equivalent rate of discount approx.	4.719% per ann
Low	- 95.197	" " " " "	4.737% "
Average	- 95.203	" " " " "	4.731% "

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

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 59,071,000	$ 11,771,000
New York	1,878,509,000	716,615,000
Philadelphia	17,904,000	2,904,000
Cleveland	68,843,000	62,173,000
Richmond	3,183,000	3,183,000
Atlanta	52,343,000	11,149,000
Chicago	420,172,000	115,633,000
St. Louis	31,498,000	18,421,000
Minneapolis	6,855,000	1,855,000
Kansas City	2,744,000	2,744,000
Dallas	16,950,000	1,950,000
San Francisco	162,197,000	52,436,000
TOTAL	$2,720,269,000	$1,000,834,000

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 4.98%. Interest rates on bills are quote 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 re late 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



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TOTAL	$2,720,269,000	$1,000,834,000

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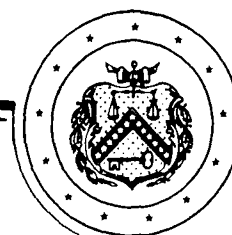
TREASURY DEPARTMENT



WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
›nday, December 27, 1965.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that tenders for the additional issue December 30 f two series of Treasury bills, one series dated March 31, 1965 (91 days to maturity) ıd the other series dated June 30, 1965 (182 days to maturity), which were offered on ecember 20, were opened at the Federal Reserve Banks today. Tenders were invited for 1,200,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, f 182-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing March 31, 1966		182-day Treasury bills maturing June 30, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.880	4.431%	97.652	4.644%
Low	98.867	4.482%	97.643	4.662%
Average	98.873	4.457% 1/	97.647	4.655% 1/

23% of the amount of 91-day bills bid for at the low price was accepted
43% of the amount of 182-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 12,840,000	$ 12,840,000	$ 44,190,000	$ 44,190,000
New York	1,339,258,000	753,508,000	1,247,177,000	585,206,000
Philadelphia	25,565,000	13,565,000	14,052,000	5,738,000
Cleveland	31,496,000	31,496,000	42,989,000	37,989,000
Richmond	17,242,000	17,242,000	4,329,000	4,329,000
Atlanta	39,468,000	33,544,000	32,771,000	15,121,000
Chicago	250,636,000	131,109,000	370,353,000	189,653,000
St. Louis	36,607,000	36,607,000	16,398,000	15,398,000
Minneapolis	18,548,000	18,548,000	11,528,000	8,243,000
Kansas City	37,602,000	37,602,000	18,420,000	15,620,000
Dallas	31,391,000	24,891,000	12,884,000	7,884,000
San Francisco	99,343,000	89,343,000	248,480,000	70,870,000
TOTALS	$1,939,996,000	$1,200,295,000 a/	$2,063,571,000	$1,000,241,000 b/

/ Includes $259,067,000 noncompetitive tenders accepted at the average price of 98.873
/ Includes $125,762,000 noncompetitive tenders accepted at the average price of 97.647
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.57% for the 91-day bills, and 4.83% for the 182-day bills.

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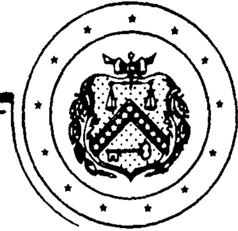
Draft Press Release for Changing Date on Pennies and Nickels

For Release December 29

Assistant Treasury Secretary Robert A. Wallace announced that beginning today one-cent and five-cent coins will be dated 1965 instead of 1964 The 1964 date has been used on pennies and nickels thusfar this year to avoid worsening shortages of these coins, now largely overcome. This will permit coins of these denominations to bear the same date as the new dimes, quarters and half dollars, authorized by the Coinage Act of 1965.

Penny and nickel inventories are sufficient to permit this move. However, supplies of dimes, quarters and half dollars are not yet adequate to change the 1965 date to 1966. Coins of all denominations will resume normal dating when there are enough in the pipelines to assure protection against shortages.

TREASURY DEPARTMENT



WASHINGTON, D.C.

December 28, 1965

FOR RELEASE: A.M. NEWSPAPERS
WEDNESDAY, DECEMBER 29, 1965

ONE AND FIVE CENT COINS
TO BE DATED 1965

Assistant Treasury Secretary Robert A. Wallace announced that, beginning today, one-cent and five-cent coins will be dated 1965 instead of 1964.

The 1964 date has been used on pennies and nickels thus far this year to avoid worsening shortages of these coins, now largely overcome. This will permit coins of these denominations to bear the same date as the new dimes, quarters and half dollars, authorized by the Coinage Act of 1965.

Penny and nickel inventories are sufficient to permit this move. However, supplies of dimes, quarters and half dollars are not yet adequate to change the 1965 date to 1966.

Coins of all denominations will resume normal dating when there are enough in the pipelines to assure protection against shortages.

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F-318

The Coinage Act of 1965, which became law on July 23, 1965, made no change in the penny, the nickel or the silver dollar. There are no plans at present for minting of silver dollars.

Like the Kennedy half dollars dated 1964, those dated 1965 will not bear a mintmark. The Coinage Act of 1965 specifies that no mintmarks will be authorized until five years from the date of initial issurance.

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the past two months, over 400 million of the new quarters have been placed in circulation. The Philadelphia Mint has begun minting of the new, non-silver dime -- also with cupronickel faces clad on a core of pure copper. Circulation of this coin is also expected to begin early in the new year.

The new dimes, quarters and half dollars are three layer, "clad" coins because this construction permits duplication in a non-silver coin, or a coin with low silver content, of the electrical properties of coins of 90 percent silver. This allows the new coins and the old; 90 percent silver coins, to be used interchangeably in coin operated devices.

The switch to coins of lower silver content, or none, was made necessary by a growing world silver shortage.

The silver coinage will continue to circulate, side-by-side with the new coinage.

All of the new half dollars will bear the date 1965 until the shortage of this denomination has been overcome. Some 390 million 90 percent silver Kennedy half dollars made during 1964 and 1965 all bear the date 1964.

The new half dollars will be placed in circulation early next year. They will be shipped to the Federal Reserve Banks and branch banks and will be used by them in their regular weekly coin shipments to supplement the supply of circulating half dollars, through the medium of commercial banks, throughout the country.

This was the procedure followed in issuing the first of the three new coins -- the 25-cent piece -- authorized by the Coinage Act of 1965. Production of the new quarter, which has cupronickel faces bonded to a core of pure copper, began August 23, 1965 and circulation began November, 1965. In

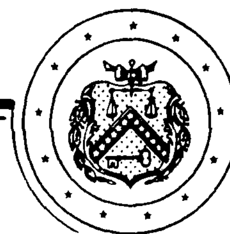
~~TREASURY ANNOUNCES THE~~ FIRST STRIKING OF
HALF DOLLARS ~~MADE~~ FROM ~~THE~~ NEW COINAGE MATERIAL
~~TO TAKE PLACE~~ AT ~~THE~~ U. S. MINT AT DENVER ON
DECEMBER 30, 1965, ~~10:00 A.M., MST~~

Production of the new half dollar, authorized by the Coinage Act of 1965, will start on Thursday, December 30, at 10:00 a.m. at the Denver Mint.

The new half dollar will continue to bear the Kennedy design approved by the Congress two years ago. Coin designs are retained for 25 years unless the Congress directs an earlier change.

The new half dollar will contain 40 percent silver compared to the traditional 90 percent silver half dollars. However, in appearance the new coin will be nearly identical to the old half dollar as it will have outer layers of 80 percent silver. The core will be 21 percent silver -- lowering total silver content to 40 percent.

TREASURY DEPARTMENT



WASHINGTON, D.C.

December 28, 1965

FOR RELEASE: P.M. NEWSPAPERS
WEDNESDAY, DECEMBER 29, 1965

FIRST STRIKING OF HALF DOLLARS FROM NEW
COINAGE MATERIAL AT U. S. MINT AT DENVER ON THURSDAY

Production of the new half dollar, authorized by the Coinage Act of 1965, will start on Thursday, December 30, at 10:00 a.m. at the Denver Mint.

The new half dollar will continue to bear the Kennedy design approved by the Congress two years ago. Coin designs are retained for 25 years unless the Congress directs an earlier change.

The new half dollar will contain 40 percent silver compared to the traditional 90 percent silver half dollars. However, in appearance the new coin will be nearly identical to the old half dollar as it will have outer layers of 80 percent silver. The core will be 21 percent silver -- lowering total silver content to 40 percent.

All of the new half dollars will bear the date 1965 until the shortage of this denomination has been overcome. Some 390 million 90 percent silver Kennedy half dollars made during 1964 and 1965 all bear the date 1964.

The new half dollars will be placed in circulation early next year. They will be shipped to the Federal Reserve Banks and branch banks and will be used by them in their regular weekly coin shipments to supplement the supply of circulating half dollars, through the medium of commercial banks, throughout the country.

This was the procedure followed in issuing the first of the three new coins -- the 25-cent piece -- authorized by the Coinage Act of 1965. Production of the new quarter, which

(MORE)

has cupronickel faces bonded to a core of pure copper, began August 23, 1965 and circulation began November, 1965. In the past two months, over 400 million of the new quarters have been placed in circulation. The Philadelphia Mint has begun minting of the new, non-silver dime -- also with cupronickel faces clad on a core of pure copper. Circulation of this coin is also expected to begin early in the new year.

The new dimes, quarters and half dollars are three layer, "clad" coins because this construction permits duplication in a non-silver coin, or a coin with low silver content, of the electrical properties of coins of 90 percent silver. This allows the new coins and the old; 90 percent silver coins, to be used interchangeably in coin operated devices.

The switch to coins of lower silver content, or none, was made necessary by a growing world silver shortage.

The silver coinage will continue to circulate, side-by-side with the new coinage.

The Coinage Act of 1965, which became law on July 23, 1965, made no change in the penny, the nickel or the silver dollar. There are no plans at present for minting of silver dollars.

Like the Kennedy half dollars dated 1964, those dated 1965 will not bear a mintmark. The Coinage Act of 1965 specifies that no mintmarks will be authorized until five years from the the date of initial issuance.

oOo

[illegible]

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 sol 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 here under are sold is not considered to accrue until such bills are sold, redeemed or othe wise 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 amou 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, prescri 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

printed forms and forwarded in the special envelopes which will be supplied by Federa 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 bil 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 Reser Banks and Branches, following which public anouncement 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 Treasu 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 reserva- tions, 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 Feder Reserve Bank on January 6, 1966, in cash or other immediately available fu or in a like face amount of Treasury bills maturing January 6, 1966. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made f differences between the par value of maturing bills accepted in exchange and the is price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE December 29, 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 $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 6, 1966, in the amount of $2,202,223,000, as follows:

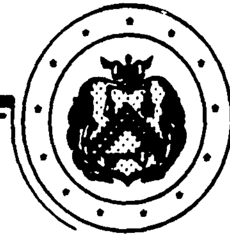
91-day bills (to maturity date) to be issued January 6, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated October 7, 1965, and to mature April 7, 1966, originally issued in the amount of $1,001,464,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated January 6, 1966, and to mature July 7, 1966.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 3, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



WASHINGTON, D.C.
December 29, 1965

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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 thout deposit from incorporated banks and trust companies and from sponsible and recognized dealers in investment securities. Tenders om others must be accompanied by payment of 2 percent of the face ount of Treasury bills applied for, unless the tenders are companied by an express guaranty of payment by an incorporated bank 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 Bank on January 6, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 6, 1966. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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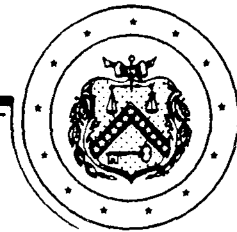
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
sday, December 29, 1965.

RESULTS OF TREASURY'S OFFER OF ADDITIONAL
$1 BILLION IN JUNE TAX BILLS

The Treasury Department announced that the tenders for an additional $1,000,000,000, ereabouts, of the Tax Anticipation Series Treasury bills dated October 11, 1965, o mature June 22, 1966, were opened at the Federal Reserve Banks today. The addi- l amount of bills, which were offered on December 22, will be issued January 5, (168 days to maturity date).

The details of this issue are as follows:

Total applied for - $3,641,522,000
Total accepted - 1,000,706,000 (includes $230,398,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting two tenders totaling $200,000)

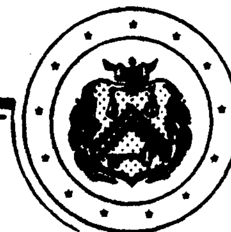
	Price		Rate
High	- 98.008	Equivalent rate of discount approx.	4.269% per annum
Low	- 97.999	" " " " "	4.288% " "
Average	- 98.002	" " " " "	4.281% " " 1/

(54% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 163,615,000	$ 36,735,000
New York	1,479,540,000	225,440,000
Philadelphia	168,180,000	45,180,000
Cleveland	250,895,000	91,695,000
Richmond	75,015,000	14,815,000
Atlanta	178,678,000	73,278,000
Chicago	402,377,000	68,277,000
St. Louis	163,225,000	58,489,000
Minneapolis	147,455,000	38,533,000
Kansas City	56,162,000	35,934,000
Dallas	210,130,000	103,930,000
San Francisco	346,250,000	208,400,000
TOTAL	$3,641,522,000	$1,000,706,000

s rate is on a bank discount basis. The equivalent coupon issue yield is 4.43%.

TREASURY DEPARTMENT



WASHINGTON, D.C.
December 30, 1965

FOR RELEASE 3:00 P.M., EST
DECEMBER 30, 1965

UNITED STATES AND MEXICO SIGN $75 MILLION
EXCHANGE STABILIZATION AGREEMENT

Secretary of the Treasury Henry H. Fowler, the Ambassador of Mexico, Hugo B. Margain, and Ernesto Fernandez Hurtado, Deputy Director of the Bank of Mexico, today signed a $75 million Exchange Stabilization Agreement between the United States Treasury, the Bank of Mexico, and the Government of Mexico, replacing one for the same amount which expires at the end of 1965.

The Agreement signed today represents an extension of stabilization arrangements between the United States and Mexico which have been in effect since 1941, and have proved beneficial to the financial relationships between the two countries. For the first time, the new agreement provides reciprocal swap facilities available for use both by Mexico and by the United States. The availability of the new swap facilities will further strengthen the ability of the financial authorities to cooperate effectively and to conduct such stabilization operations as may be desirable from time to time to promote stable and orderly conditions in the exchange markets.

The new Agreement will be effective during the two-year period ending December 31, 1967.

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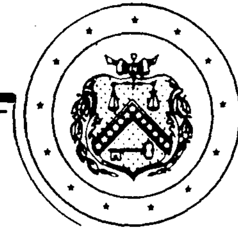
F-322

TREASURY DEPARTMENT



WASHINGTON, D.C.
December 30, 1965

ADVANCE FOR USE IN PAPERS
OF SUNDAY, JANUARY 2, 1966

NEW MEDAL OF PRESIDENT JOHNSON MADE BY U. S. MINT

The Director of the Mint, Miss Eva Adams, announced today the Mint has struck a new medal of President Lyndon B. Johnson.

This medal marks the beginning of the President's current term in office, on January 20, 1965. On March 6, 1964, the Mint issued a medal commemorating his succession to the Presidency on the death of President John F. Kennedy, November 22, 1963.

The new Johnson medal bears a full face portrait in relief of the Chief Executive, with the words Lyndon B. Johnson around the top half. The earlier Johnson medal was a profile portrait. On the reverse of the new medal is a quotation from the President's January 20, 1965 Inaugural Address:

> On this occasion the oath I have taken before you
> and before God - is not mine alone but ours together.
> We are one nation and one people . . .

Below the quotation is a small raised reproduction of the seal of the President of the United States, the President's signature in script, and the inaugural date. The reverse of the previous Johnson medal reproduced the Presidential seal the full size of the medal with the addition to the seal of the date November 22, 1963. The new medal was made by Frank Gasparro, Chief Engraver of the Mint.

The new, as well as the older Johnson medal can be ordered from the Superintendent, U. S. Mint, Philadelphia, Pennsylvania 19130, for $3.00, including postage and insurance. The new medal is designated Presidential List No. 137; the older medal is Presidential List No. 136. Mail orders should bear the list number and be paid by personal check or money order, not cash.

The Presidential series of Mint medals dates back to our early colonial history when medals were presented by George II and George III to Indian Chiefs in recognition of their fealty

to the British Crown. After the Revolutionary War the United States continued this practice, replacing the likeness of the British King with that of the President of the United States. Almost without exception, these Indian Peace Medals were struck during the Administration of each succeeding Chief Executive and bore his likeness on the obverse with appropriate symbols of peace and friendship on the reverse. After cessation of hostilities with the Indian tribes removed this need for medals, the series was continued as documentation of the Presidency.

Production and sale of commemorative medals honoring, besides the Presidents, Army and Navy heroes and outstanding citizens, and memorializing events of national importance, has been carried on at the Philadelphia Mint for over 100 years.

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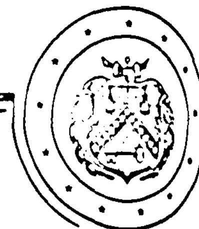
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, January 3, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated October 7, 1965, and the other series to be dated January 6, 1966, which were offered on December 29, 1965, were opened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, 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 April 7, 1966		:	182-day Treasury bills maturing July 7, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv Annual Rate
High	98.860 a/	4.510%	:	97.624 b/	4.700%
Low	98.844	4.573%	:	97.608	4.731%
Average	98.854	4.532% 1/	:	97.615	4.718% 1/

a/ Excepting one tender of $800,000; b/ Excepting two tenders totaling $310,000
48% of the amount of 91-day bills bid for at the low price was accepted
7% of the amount of 182-day bills bid for at the low price was accepted

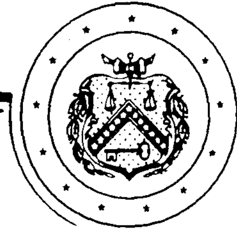
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 34,770,000	$ 34,770,000	:	$ 18,449,000	$ 18,222,0[illegible]
New York	1,308,249,000	787,649,000	:	1,264,646,000	637,036,0[illegible]
Philadelphia	30,685,000	24,685,000	:	17,624,000	9,624,0[illegible]
Cleveland	28,867,000	28,867,000	:	49,748,000	49,748,0[illegible]
Richmond	14,363,000	14,363,000	:	3,740,000	3,740,0[illegible]
Atlanta	44,101,000	44,101,000	:	28,187,000	15,397,0[illegible]
Chicago	266,936,000	141,884,000	:	235,964,000	111,314,0[illegible]
St. Louis	50,564,000	45,564,000	:	24,211,000	14,746,0[illegible]
Minneapolis	17,844,000	17,844,000	:	11,078,000	10,078,0[illegible]
Kansas City	26,413,000	26,413,000	:	13,749,000	13,249,0[illegible]
Dallas	23,329,000	23,329,000	:	14,065,000	10,135,0[illegible]
San Francisco	112,725,000	112,725,000	:	249,224,000	107,382,0[illegible]
TOTALS	$1,961,846,000	$1,300,194,000	c/	$1,930,685,000	$1,000,671,[illegible]

c/ Includes $250,907,000 noncompetitive tenders accepted at the average price of 98.[illegible]
d/ Includes $115,304,000 noncompetitive tenders accepted at the average price of 97.[illegible]
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.65% for the 91-day bills, and 4.90% for the 182-day bills.

F-321

TREASURY DEPARTMENT



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w York	1,308,249,000	787,649,000	:	1,264,646,000	637,036,000
iladelphia	30,685,000	24,685,000	:	17,624,000	9,624,000
eveland	26,867,000	26,867,000	:	49,748,000	49,748,000
chmond	14,363,000	14,363,000	:	3,740,000	3,740,000
lanta	44,101,000	44,101,000	:	28,187,000	15,397,000
icago	266,936,000	141,884,000	:	235,964,000	111,314,000
. Louis	50,564,000	45,564,000	:	24,211,000	14,746,000
nneapolis	17,844,000	17,844,000	:	11,078,000	10,078,000
nsas City	26,413,000	26,413,000	:	13,749,000	13,249,000
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TOTALS	$1,961,846,000	$1,300,194,000 c/		$1,930,685,000	$1,000,671,000 d/

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65% for the 91-day bills, and 4.90% for the 182-day bills.

~~DRAFT PRESS RELEASE~~

~~For January 4, 1966~~

U.S. Makes I.M.F. Draw

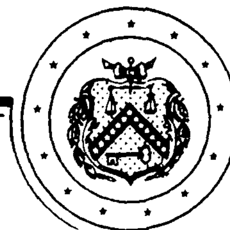
Secretary of the Treasury Henry H. Fowler today announced a drawing by the United States on the International Monetary Fund in the amount of $100 million. The drawing was made in Canadian dollars.

This drawing is the eighth in a series of what have been termed "technical" drawings which began ~~in February~~ 1964. The currency drawn by the United States is expected to be sold for dollars to other Fund members for ~~their~~ use in making repayments to the Fund over the next several months.

Approve: ________________

Disapprove: ________________

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 4, 1966

IMMEDIATE RELEASE

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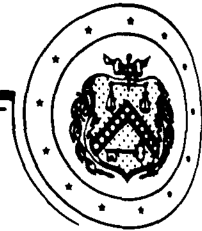
F-325

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 4, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON STEEL JACKS
UNDER THE ANTIDUMPING ACT

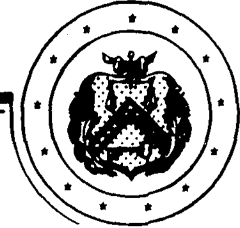
The Treasury Department has completed its investigation with respect to the possible dumping of steel jacks from Canada, manufactured by J. C. Hallman Manufacturing Co., Ltd., Waterloo, Ontario, Canada. A notice of a tentative determination that this merchandise is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended, will be published in an early issue of the Federal Register.

The merchandise under consideration consists of heavy-duty steel jacks, from 36-inches to 64-inches high. They are hand-operated mechanisms for lifting cars, trucks, tractors, etc.

Appraisement of the above-described merchandise from Canada, manufactured by J. C. Hallman Manufacturing Co., Ltd., Waterloo, Ontario, Canada, has been withheld at this time.

Imports of the involved merchandise received during the period July 1, 1964, through September 30, 1965, amounted to approximately $167,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 4, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON STEEL JACKS
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed its investigation with respect to the possible dumping of steel jacks from Canada, manufactured by J. C. Hallman Manufacturing Co., Ltd., Waterloo, Ontario, Canada. A notice of a tentative determination that this merchandise is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended, will be published in an early issue of the Federal Register.

The merchandise under consideration consists of heavy-duty steel jacks, from 36-inches to 64-inches high. They are hand-operated mechanisms for lifting cars, trucks, tractors, etc.

Appraisement of the above-described merchandise from Canada, manufactured by J. C. Hallman Manufacturing Co., Ltd., Waterloo, Ontario, Canada, has been withheld at this time.

Imports of the involved merchandise received during the period July 1, 1964, through September 30, 1965, amounted to approximately $167,000.

A. BAYARD ANGLE, District Director-designate of Tampa Customs District, was born on October 1, 1908 in Bartow, Fla. He attended the University of Florida, was admitted to the Florida Bar in 1933 and subsequently to the Federal District Court, 5th Circuit Court of Appeals, and Customs Court.

Mr. Angle is a Captain in the U.S. Coast Guard Reserve, designated as Port Security and Legal Officer. He is an active member of the American Legion, the Elks Club, the American Bar Association, and the Florida Bar Association

Mr. Angle was appointed Collector of Customs in July, 1961, with supervisory responsibility for approximately 300 employees throughout the Florida Customs District.

Mr. and Mrs. Angle reside at 4002 Bay-to-Bay Blvd., Tampa, Fla.

* * *

(more)

MRS. RUTH JONES, District Director-designate of the Virgin Islands Customs District, was born in New York City, received a Bachelor of Arts degree in business administration at the College of the City of New York in 1943 and a Master of Science degree in business administration at CCNY in 1957.

Mrs. Jones served the Internal Revenue Service for 25 years as an agent, reviewer, and instructor. On November 24, 1961, Mrs. Jones was appointed Collector of Customs in the Virgin Islands, with administrative control of 39 Customs personnel at the ports of St. Thomas; Frederiksted and Christiansted St. Croix; Cruz Bay and Coral Bay St. John.

(END)

RAFAEL A. TORRENS, District Director-designate of the Puerto Rico Customs District, was born on September 11, 1910 in Hato Rey, Puerto Rico. He was educated at the Santurce Central High School, P.R., and attended the Treasury Department Law Enforcement Officers Training School.

He served in the U. S. Army from 1940 to 1946, attended the Artillery School at Fort Sill, Okla., and passed the basic and advanced courses for officers.

After a few years with the Royal Bank of Canada in San Juan as an accountant, Mr. Torrens entered the federal service in San Juan as a Customs guard in 1938. Following his discharge from the Army in 1946, he became a Customs inspector. In 1950 he was transferred to New York City, and in 1952 entered the Customs Agency Service as a criminal investigator.

Mr. Torrens was appointed Acting Collector of Customs in San Juan in January 1965. He supervises the Puerto Rico Customs District with subports at Mayaguez, Ponce, and Fajardo, with a total work force of approximately 180 persons.

Mr. and Mrs. Torrens reside at 657 Ponce de Leon Ave., Santurce, P.R.

(more)

ALFRED R. DeANGELUS, District Director-designate of the Wilmington, N.C. Customs District, was born August 18, 1936, in Cranston, R.I. He holds a Bachelor of Science degree from Providence College in Providence, R.I., where he graduated Magna Cum Laude in June 1957, ranking seventeen in a class of 275. His special field was business administration (management). He did post-graduate work at the American University in Washington D.C. in 1958 and 1959 and is fluent in French, Italian and Spanish.

Mr. DeAngelus served in the Adjutant General's School, U.S. Army, at Fort Harrison, Indiana, as a second lieutenant, with responsibility for conducting troop information classes. He entered the government service at the Bureau of Accounts, Treasury Department in June 1958, transferring to the Customs Service in August 1959 as a Customs examiner in New York City. In May 1961 Mr. DeAngelus transferred to Wilmington, N.C., as Customs line examiner, becoming appraiser there in 1963.

Mr. and Mrs. DeAngelus reside at 626 Pine Valley Drive, Wilmington, N.C.

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(more)

CARL H. VINING, District Director-designate of the Charleston, S.C. Customs District, was born on June 16, 1915 at Kalamazoo, Mich. He was educated the Kalamazoo public schools and served with the U.S. Army from 1933 to 1936 and in 1945-46.

Mr. Vining, who has been Assistant Collector of Customs in Charleston since November 1963, started his career in Detroit, Mich., with the Fruehauf Trailer Company in 1936. In 1942 he entered the Customs Service as a journeyman inspector in Detroit, and in 1958 he was named supervisory customs inspector in Charleston, S.C.

Mr. and Mrs. Vining reside at 2145 Westrivers Road, Charleston, S.C.

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MRS. MARION F. BAKER, District Director-designate of the Savannah Customs District, was born at Camilla, Georgia, ~~[illegible]~~ ~~and~~ received her education at Wesleyan College, Macon, Ga. Her major fields of interest ~~was~~ dramatics and public speaking.

Mrs. Baker taught dramatics for a number of years and then went into the department store business as a general manager and buyer.

Mrs. Baker was appointed Collector of Customs in Savannah in June 1962 and has supervised the work of 29 Customs personnel. She is a member of the Chamber of Commerce in Savannah and ~~vice~~ is ~~president~~ of the Quota Club in that city.

Mrs. Baker resides with her husband Reginald Baker at 201 East 65th Street, Savannah, Ga.

* * *

BIOGRAPHICAL SKETCHES OF DISTRICT DIRECTORS

EVERETT F. DE BRAND, District Director-designate of the Miami Customs District, was born on December 21, 1914, in Everett, Washington. He attended school in Savannah, Georgia, and was a student at the Norfolk Business College at Norfolk, Va. He also took management training courses.

Mr. De Brand served with the U.S. Navy from 1931 to 1934. He entered the Government service in 1936 as a messenger and clerk with the National Advisory Committee for Aeronautics, and in 1938 he transferred to the Office of the Collector of Customs in Norfolk, Va., where he served in the Entry and Liquidation Division.

Mr. De Brand rose through the ranks. In 1946 he was promoted to line examiner in Norfolk, handling all classes of merchandise for the appraiser's office. He was promoted to the post of Appraiser of Merchandise in 1950 in Norfolk and in 1952 was transferred to Miami, Fla., in that same position.

Mr. and Mrs. De Brand reside at 9515 S.W. 48th St., Miami, Fla.

* * *

(more)

BIOGRAPHICAL SKETCH OF JAMES E. TOWNSEND

James E. Townsend, Assistant Regional Commissioner (Administration) designate, was born in Atlanta, Georgia, in 1926. He attended Georgia Institute of Technology and received a Bachelor of Science degree in textile engineering there in 1950. During World War II he served as a sergeant in the U.S. Air Force.

Mr. Townsend joined the Customs Service in April, 1950, as a Customs examiner at Charleston, South Carolina. He was promoted to liaison officer in September, 1952, at the Bureau of Customs in Washington, D.C. In 1959, he was transferred to Wilmington, N.C., where he served as Assistant Collector of Customs. He returned to the Bureau in Washington as operations officer in March, 1965.

Mr. and Mrs. Townsend reside at 13511 Bartlett Street, Rockville, Md. They have three children, James E., Jr., 13; Geoffrey, 9; and Victoria, 5.

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BIOGRAPHICAL SKETCH OF HARLON J. SPONHEIM

Harlon J. Sponheim, Assistant Regional Commissioner (Operations) designate, was born in Minnesota in 1911 and studied at Wayne University, Detroit.

Since 1956, Mr. Sponheim has been Assistant Collector of Customs in Tampa, Fla. For several years during this period he has served in Tampa as Acting Collector of Customs. In his position as Assistant Collector in Tampa, Mr. Sponheim has supervisory responsibility for approximately 300 employees in the District of Florida.

Mr. Sponheim started his government career as a clerk in 1929 with the Customs Service in Pembina, North Dakota, transferring to Detroit, Michigan, in 1934. During the next two decades, Mr. Sponheim held several positions in the Moneys and Accounts Division of the Bureau of Customs in Detroit, and in 1954 he became Administrative Officer in that division. In 1955, he was appointed Acting Assistant Collector in Detroit and placed in charge of entry and liquidation operations.

Mr. and Mrs. Sponheim reside at 3401 San Jose, Tampa, Florida.

Former Secretary of the Treasury Douglas Dillon appointed Mr. Stover as Project Leader of the Joint Treasury Department-Bureau of Customs Survey Group to evaluate the mission, organization, and mangement of the U. S. Customs Service. This study provided the basis for a major reorganization of the 176-year-old Customs Service. For his leadership in this project, Mr. Stover received a Treasury Department Exceptional Service Award in 1965.

Mr. Stover is active in civic and professional groups. He has been president of the East Falls Church Civic Association, chairman of the Boy Scout Troop Committee, and president of the Memorial Baptist Church Brotherhood. He has also served as chairman of the Arlington County, Virginia, Legislative Advisory Committee.

Mr. and Mrs. Stover reside at 9609 Clark Crossing Road, Vienna, Virginia. They have two children, Mrs. Ann Patrick of Bailey's Cross-roads, Virginia, and Robert B. Stover of 4149 N. Henderson Rd., Arlington, Virginia.

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BIOGRAPHICAL SKETCH OF JAMES H. STOVER

James H. Stover was born in Forest Hill, West Virginia, ~~October,~~ in 1911. He graduated from Talcott District High School in West Virginia and studied accounting and commercial law at Benjamin Franklin University night school. Later, as part of a Rockefeller Public Service Award, he ~~took~~ advanced management courses at Northwestern, Indiana, and Harvard Universities.

Mr. Stover started his government career in 1935 as a clerk in the Central Accounts Office of the Treasury Department. He was promoted to the position of Chief of the Operations Analysis Section and later moved on to the Treasury Budget Section, Bureau of Accounts, as Assistant Chief. During World War II, Mr. Stover served in Army Finance and rose from second lieutenant to major before his discharge in 1946.

Returning to the Treasury Department, Mr. Stover became assistant to the Commissioner in the Bureau of Public Debt. Subsequently he was appointed chief of the Management Analysis Division in the Office of the Secretary. Since April, 1963, he has been Director of the Office of Management and Organization in the Office of the Secretary of the Treasury.

In 1959, Mr. Stover ~~was the recipient of~~ a Rockefeller Public Service Award for Distinguished Federal Service. In 1963 he was honored with a Special Service Award "for noteworthy contribution to effective and efficient operation of the Treasury Department."

Chicago, Ill., March; Baltimore, Md., April; Houston, Tex. and Boston, Mass., May; and New York City in June.

Offices of the Miami regional headquarters will be located on the 16th floor of the Federal Office Building at 51 S.W First Avenue, Miami, Fla.

United States Commissioner of Customs Lester D. Johnson heads the Bureau of Customs, which is part of the Treasury Department. His office is in Washington, D.C.

(Biographies attached)

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1965, evaluated the mission, organization, and management of the United States Customs Service. The final report of the group was released in March 1965. One of its principal recommendations was that the Customs Bureau be placed on a career basis.

The Reorganization Plan, which went into effect on May 25, 1965, provided for the elimination of 53 Customs positions throughout the U.S. previously filled by Presidential appointment.

Miami will be the third region to be activated in accordance with a year-long timetable. The San Francisco and Los Angeles Regions were established November 1, 1965 and January 1, 1966, respectively. The remaining six regions are scheduled as follows: New Orleans, also in February;

activation of the new region. Regionalization and the 1965 Presidential reorganization of the Bureau of Customs, which placed the 176-year-old Customs Service wholly on a career basis, are major parts of a general modernization of the Bureau.

Selection of seven Customs District Directors for the new region was also announced. They are:

Miami Customs District - Everett F. De Brand
of Miami, Fla.
Savannah Customs District - Mrs. Marion F. Baker
of Savannah, Ga.
Charleston Customs District - Carl H. Vining
of Charleston, S.C.
Wilmington Customs District - Alfred R. DeAngelus
of Wilmington, N.C.
San Juan Customs District - Rafael A. Torrens
of San Juan, P.R.
St. Thomas Customs District - Mrs. Ruth H. Jones
of St. Thomas, V.I.
Tampa Customs District - A. Bayard Angle
of Tampa, Fla.

Mr. Stover was the project leader of the Joint Treasury Department-Bureau of Customs Survey Group which, from 1963 to

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FOR RELEASE A.M. NEWSPAPERS
WEDNESDAY, JANUARY 5, 1966

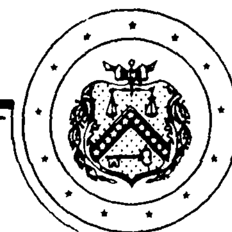
REGIONAL COMMISSIONERS AND DISTRICT DIRECTORS APPOINTED FOR MIAMI REGION

Assistant Secretary of the Treasury True Davis today announced the appointment of James H. Stover, Washington, D.C., a career U.S. Treasury official, as Regional Commissioner of Customs for the new Miami Customs Region IV.

Assistant Secretary Davis also announced the appointments of Harlon J. Sponheim, Assistant Collector of Customs at Tampa, Florida, as Assistant Regional Commissioner for Operations in the new Miami Region and James E. Townsend, operations officer in the Bureau of Customs, Washington, D.C., as Assistant Regional Commissioner for Administration.

The appointments, made in accordance with Civil Service regulations, will become effective February 1 with the

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 4, 1966

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Wilmington Customs District - Alfred R. DeAngelus of Wilmington, North Carolina.
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Mr. Stover was the project leader of the Joint Treasury Department-Bureau of Customs Survey Group which, from 1963 to 1965, evaluated the mission, organization, and management of the United States Customs Service. The final report of the group was released in March 1965. One of its principal recommendations was that the Customs Bureau be placed on a career basis.

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Mrs. Baker taught dramatics for a number of years and then went into the department store business as a general manager and buyer.

Mrs. Baker was appointed Collector of Customs in Savannah in June 1962 and has supervised the work of 29 Customs personnel. She is a member of the Chamber of Commerce in Savannah and is Secretary of the Quota Club in that city.

Mrs. Baker resides with her husband, Reginald Baker, at 201 East 65th Street, Savannah, Ga.

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CARL H. VINING, District Director-designate of the Charleston, S. C. Customs District, was born on June 16, 1915 at Kalamazoo, Mich. He was educated in the Kalamazoo public schools and served with the U. S. Army from 1933 to 1936 and in 1945-46.

Mr. Vining, who has been Assistant Collector of Customs in Charleston since November 1963, started his career in Detroit, Mich., with the Fruehauf Trailer Company in 1936. In 1942 he entered the Customs Service as a journeyman inspector in Detroit, and in 1958 he was named supervisory customs inspector in Charleston, S. C.

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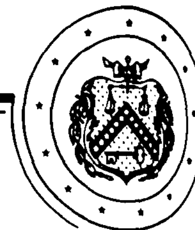
TREASURY DEPARTMENT



WASHINGTON, D.C.
January 5, 1966

FOR IMMEDIATE RELEASE

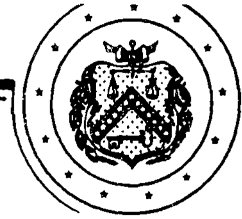
TREASURY DECISION ON VINYL ASBESTOS FLOOR TILE
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed its investigation with respect to the possible dumping of vinyl asbestos floor tile from Canada, manufactured by Building Products of Canada Limited, Montreal, Canada. A notice of a tentative determination that this merchandise is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended, will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Canada, manufactured by Building Products of Canada Limited, Montreal, Canada, has been withheld.

Imports of the involved merchandise received during the period January 1, 1965, through October 31, 1965, amounted to approximately $270,000.

TREASURY DEPARTMENT



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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or othe wise 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 amou 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, prescrib the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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printed forms and forwarded in the special envelopes which will be supplied by Federa
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 bil 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 Reser Banks and Branches, following which public anouncement 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 Treasu 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 Federa Reserve Bank on January 13, 1966, in cash or other immediately available fu or in a like face amount of Treasury bills maturing January 13, 1966. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made f differences between the par value of maturing bills accepted in exchange and the is price of the new bills.

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

TREASURY DEPARTMENT
Washington
TREASURY'S WEEKLY BILL OFFERING

FOR IMMEDIATE RELEASE,

January 5, 1966

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 2,300,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing January 13, 1966 , in the amount of $ 2,200,555,000 , as follows:

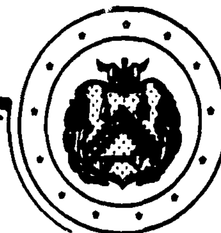
91-day bills (to maturity date) to be issued January 13, 1966 , in the amount of $ 1,300,000,000 , or thereabouts, representing an additional amount of bills dated October 14, 1965 , and to mature April 14, 1966 , originally issued in the amount of $ 998,759,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 1,000,000,000 , or thereabouts, to be dated January 13, 1966 , and to mature July 14, 1966

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 10, 1966 . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on th

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 5, 1966

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 $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 13, 1966, in the amount of $2,200,555,000, as follows:

91-day bills (to maturity date) to be issued January 13, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated October 14, 1965, and to mature April 14, 1966, originally issued in the amount of $998,759,000, the additional and original bills to be freely interchangeable.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 10, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury 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 Bank on January 13, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 13, 1966. 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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The amendments made by the protocol do not affect the application of the treaty to certain territories outside the United Kingdom to which the treaty previously has been extended by mutual agreement between the two countries. In the case of such territories, the treaty as in effect on December 31, 1965, including Article VI thereof, will continue to apply.

by the recipient thereof in the country from which such payments are made. In the case of dividends, the protocol provides that the tax on dividends received by such a permanent establishment shall not exceed 15 percent except in certain enumerated circumstances, notably if the profit on the sale of the shares on which the dividend is paid would be taxed as a trading receipt in the United Kingdom.

The exemption from tax applicable to interest and royalties and the reduced rate of tax applicable to dividends are not generally conditioned on the recipient of these payments being subject to tax. Such a condition, which does appear in the comparable provisions of the existing treaty, will apply only in certain enumerated circumstances.

The protocol also contains provisions exempting residents of one of the countries from the capital gains tax of the other. However, under this provision in the protocol, the United States may apply its capital gains tax if a resident of the United Kingdom is present in the United States for 183 days during the taxable year in which such gain is realized. In the case of the United Kingdom, the exemption from U.K. capital gains tax provided in the protocol applies with respect to gains subject to such tax for any year of assessment beginning on or after April 6, 1965. In the case of the United States, the amended provision is applicable to gains realized on or after the date of ratification of the protocol; until such date, the present complete exemption from U.S. capital gains tax provided in the existing treaty will continue in effect.

Other provisions of the protocol include those relating to the taxation of business profits to eliminate the force of attraction approach; the definition of "recognized stock exchange" for purposes of the U.K. tax law; consultation between the competent authorities of the two governments to avoid double taxation, and nondiscrimination. The last mentioned provision provides that it shall not affect the right of either country to levy tax on certain dividends at the rate of 15 percent.

In general, the provisions of the protocol become effective in the case of the United States on January 1, 1966, and in the case of the United Kingdom the protocol becomes effective for purposes of U.K. corporation tax and capital gains tax for all years to which such taxes apply, and for purposes of U.K. income tax and surtax for all years of assessment beginning on or after April 6, 1966. However, as noted above, certain provisions become effective at other times.

In addition, the protocol provides that the 15-percent dividend withholding rate will apply as a maximum rate to dividends paid by a U.K. corporation prior to April 6, 1966, if such dividends are regarded by the United Kingdom as subject to income tax under Section 83 of the Finance Act 1965 because such dividends are in excess of the standard amount of dividends ordinarily paid by such U.K. corporation.

Another major change which the protocol makes in the treaty is to provide that no credit shall be allowed by either country to its residents who receive a dividend from a corporation of the other country for corporate tax paid by the corporation paying such dividend on the profits out of which such dividend is paid unless the recipient is a corporation owning at least 10 percent of the voting power of the corporation paying the dividend. Under the existing treaty, a resident of one of the countries receiving a dividend from a corporation of the other was entitled to credit for corporate tax paid by such corporation. Each country will allow credit to its residents for tax withheld by the other country on dividends paid to such residents by corporations of such other country. These changes are effective in the case of U.S. residents with respect to dividends paid by a U.K. corporation on or after April 6, 1966, and in the case of U.K. residents with respect to dividends payable by a U.S. corporation on or after the date of ratification of the protocol or, for corporation tax purposes, April 6, 1966, whichever is later. Further consideration is being given to the proper treatment governing the credit allowed for U.K. tax to U.S. corporations receiving dividends prior to April 6, 1966, where the U.S. corporation receiving the dividend owns 10 percent or more of the voting power of the U.K. corporation paying such dividend and such dividend is paid, under U.S. tax law, out of profits which have been subject to U.K. corporation tax.

In addition to the foregoing provisions, the protocol continues an exemption from tax for interest and royalties paid by residents of one country to residents of the other.

The protocol also provides that deductions for tax purposes shall be allowed to corporations of one country for interest and royalties paid to residents of the other (apart from royalties and interest paid by a U.K. corporation before April 6, 1966, for which the paying company will have had relief for income tax); but there are certain exceptions, notably where the recipient corporation is controlled by residents of the other country.

The provisions of the protocol exempting interest and royalty payments from withholding tax only apply if such interest and royalties are not effectively connected with a permanent establishment maintained

SUMMARY OF THE TERMS OF AGREEMENT

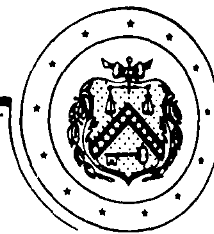
It was announced today that representatives of the United Kingdom and the United States had agreed in principle on the terms of a protocol amending the income tax convention between the two countries. Amendment of the convention was considered desirable because of changes made in the tax law of the United Kingdom by the Finance Act of 1965. The following is a brief outline of the more important provisions of the protocol.

A major amendment to the treaty made by the protocol provides that the rate at which tax will be withheld by the two countries on dividends from a corporation of one country received by residents of the other shall not exceed 15 percent.

Under the treaty as presently in force, the United States may withhold tax at the rate of 15 percent on such dividends except where the dividend is received by a U.K. corporation controlling at least 95 percent of the voting power of the U.S. company paying the dividend, in which event the maximum rate of withholding is 5 percent. The only restriction in the existing treaty on the right of the U.K. Government to tax dividend payments prohibits the levy of U.K. surtax on such payments.

On June 30, 1965, the United States gave notice of termination of these dividend provisions of the existing treaty, which termination is effective January 1, 1966, with respect to dividends from a U.S. corporation, and April 6, 1966, with respect to dividends from a U.K. corporation. Consequently, as of those dates the rate of withholding tax levied by the two countries on dividends from a corporation of one country received by residents of the other would be, in the absence of the protocol, the statutory rate provided by the laws of the two countries, i.e., 30 percent in the case of the United States and 41-1/4 percent in the case of the United Kingdom. However, the protocol provides that the 15 percent limit on the withholding tax rate on dividends established by it shall become effective on the same dates on which notice of termination of the dividend provisions of the existing treaty becomes effective, January 1, 1966, in the case of the United States and April 6, 1966, in the case of the United Kingdom. Dividends received on or after such dates and prior to the ratification of the protocol will be subject to withholding at the above statutory rates, but appropriate refunds will be made after ratification of the protocol. Such refunds will be made by the persons withholding the tax or, if such tax has been paid over to the respective government, by such government.

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 5, 1966

HOLD FOR RELEASE AT 6:30 P.M. (EST)
WEDNESDAY, JANUARY 5, 1966
(Simultaneous release in London)

AMENDMENT OF U.S.-U.K. TAX TREATY

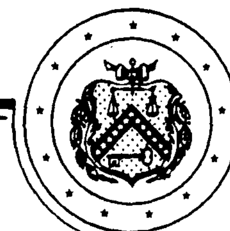
The Treasury announced today that delegations from the United States and the United Kingdom have agreed in principle on the terms of amendments to the existing income tax treaty between the two countries. The United States delegation was led by Assistant Secretary of the Treasury Stanley S. Surrey and the United Kingdom delegation by Mr. W. H. B. Johnson, a Commissioner of Inland Revenue.

The purpose of such income tax treaties is to prevent double taxation. Amendment of the treaty is required because of changes made in the tax law of the United Kingdom last year.

A summary of the terms of agreement is attached.

F-328

TREASURY DEPARTMENT



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Another major change which the protocol makes in the treaty is to provide that no credit shall be allowed by either country to its residents who receive a dividend from a corporation of the other country for corporate tax paid by the corporation paying such dividend on the profits out of which such dividend is paid unless the recipient is a corporation owning at least 10 percent of the voting power of the corporation paying the dividend. Under the existing treaty, a resident of one of the countries receiving a dividend from a corporation of the other was entitled to credit for corporate tax paid by such corporation. Each country will allow credit to its residents for tax withheld by the other country on dividends paid to such residents by corporations of such other country. These changes are effective in the case of U.S. residents with respect to dividends paid by a U.K. corporation on or after April 6, 1966, and in the case of U.K. residents with respect to dividends payable by a U.S. corporation on or after the date of ratification of the protocol or, for corporation tax purposes, April 6, 1966, whichever is later. Further consideration is being given to the proper treatment governing the credit allowed for U.K. tax to U.S. corporations receiving dividends prior to April 6, 1966, where the U.S. corporation receiving the dividend owns 10 percent or more of the voting power of the U.K. corporation paying such dividend and such dividend is paid, under U.S. tax law, out of profits which have been subject to U.K. corporation tax.

In addition to the foregoing provisions, the protocol continues an exemption from tax for interest and royalties paid by residents of one country to residents of the other.

The protocol also provides that deductions for tax purposes shall be allowed to corporations of one country for interest and royalties paid to residents of the other (apart from royalties and interest paid by a U.K. corporation before April 6, 1966, for which the paying company will have had relief for income tax); but there are certain exceptions, notably where the recipient corporation is controlled by residents of the other country.

The provisions of the protocol exempting interest and royalty payments from withholding tax only apply if such interest and royalties are not effectively connected with a permanent establishment maintained

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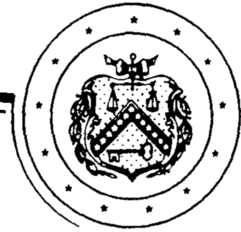
The protocol also contains provisions exempting residents of one of the countries from the capital gains tax of the other. However, under this provision in the protocol, the United States may apply its capital gains tax if a resident of the United Kingdom is present in the United States for 183 days during the taxable year in which such gain is realized. In the case of the United Kingdom, the exemption from U.K. capital gains tax provided in the protocol applies with respect to gains subject to such tax for any year of assessment beginning on or after April 6, 1965. In the case of the United States, the amended provision is applicable to gains realized on or after the date of ratification of the protocol; until such date, the present complete exemption from U.S. capital gains tax provided in the existing treaty will continue in effect.

Other provisions of the protocol include those relating to the taxation of business profits to eliminate the force of attraction approach; the definition of "recognized stock exchange" for purposes of the U.K. tax law; consultation between the competent authorities of the two governments to avoid double taxation, and nondiscrimination. The last mentioned provision provides that it shall not affect the right of either country to levy tax on certain dividends at the rate of 15 percent.

In general, the provisions of the protocol become effective in the case of the United States on January 1, 1966, and in the case of the United Kingdom the protocol becomes effective for purposes of U.K. corporation tax and capital gains tax for all years to which such taxes apply, and for purposes of U.K. income tax and surtax for all years of assessment beginning on or after April 6, 1966. However, as noted above, certain provisions become effective at other times.

The amendments made by the protocol do not affect the application of the treaty to certain territories outside the United Kingdom to which the treaty previously has been extended by mutual agreement between the two countries. In the case of such territories, the treaty as in effect on December 31, 1965, including Article VI thereof, will continue to apply.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE January 5, 1966

TREASURY ANNOUNCES $1.5 BILLION NEW CASH BORROWING

The Treasury Department announced today that it is offering for cash subscription $1.5 billion, or thereabouts, of 10-month 4-3/4% Treasury Certificates of Indebtedness of Series A-1966 at a price of 99.92 (to yield 4.85%). This financing is part of the Treasury's estimated $5 billion cash need during the second half of the current fiscal year as was stated in its financing announcement of December 22, 1965, at which time it was indicated that there would be a $1.5 billion cash offering in the short term area in January.

The certificates will be dated January 19, 1966, will mature November 15, 1966, and will be issued in bearer form only. Interest will be payable on May 15 and November 15, 1966.

Subscriptions will be received for one day only, on Monday, January 10. Any subscription, with required deposit, addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, Washington, D. C. 20220, and placed in the mail before midnight January 10, 1966, will be considered as timely.

Subscriptions from banking institutions for their own account, Federally-insured savings and loan associations, 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, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, and Government Investment Accounts will be received without deposit. Subscriptions from all others must be accompanied by payment of 2 percent of the amount of certificates applied for, not subject to withdrawal until after allotment.

Subscriptions from commercial banks for their own account will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not including capital notes or debentures), surplus and undivided profits of the subscribing bank.

The payment and delivery date for the certificates will be January 19, 1966. Payment may be made through credit to Treasury Tax and Loan Accounts.

The Secretary of the Treasury reserves the right to reject or reduce any subscription, to allot less than the amount of certificates applied for, and to make different percentage allotments to various classes of subscribers. Allotment notices will be sent out promptly upon allotment.

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

All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the certificates subscribed for under this offering at a specific rate or price, until after midnight January 10, 1966.

F-329

DRAFT PRESS RELEASE

United States - Trinidad and Tobago Income Tax Treaty
Terminated as of January 1, 1966

As a result of notice given by the Government of Trinidad and Tobago, the income tax convention between the United States and the Government of Trinidad and Tobago terminated as of January 1, 1966, the Treasury Department announced today. Consequently, as of that date the United States withholding tax on interest, dividends and other forms of "fixed or determinable ... income" flowing from the United States to individuals and corporations of Trinidad and Tobago will be the statutory rate of 30 percent in accordance with Sections 871 and 881 of the Internal Revenue Code.

Since the notice was given, several meetings have taken place, both in the United States and in Trinidad, with a view to reaching a new agreement that would be satisfactory to both parties. It was hoped that announcement could be made that agreement had been reached on a new convention prior to the expiration of the one that has been in effect. However, while a substantial measure of agreement has been reached, several points are still under discussion.

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January 6, 1966

~~PRESS RELEASE~~
FOR IMMEDIATE RELEASE

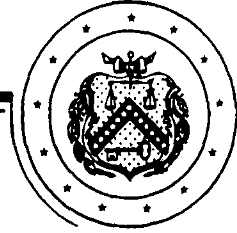
INCOME TAX TREATY WITH TRINIDAD AND TOBAGO TERMINATED

The Treasury Department announced today that the income tax convention between the United States and the Government of Trinidad and Tobago was terminated as of January 1, 1966.

The action came as a result of notice given by the Government of Trinidad and Tobago.

Consequently, as of January 1, 1966, the United States withholding tax on interest, dividends and other forms of "fixed or determinable ... income" flowing from the United States to individuals and corporations of Trinidad and Tobago will be the statutory rate of 30 percent, in accordance with Sections 871 and 881 of the Internal Revenue Code.

TREASURY DEPARTMENT



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F-330

Assistant General Counsel, serving in that capacity until 1964. In that year he was appointed Solicitor for the Federal Maritime Commission. He comes to the Treasury directly from the Federal Maritime Commission.

Mr. Miskovsky was awarded the Central Intelligence Agency's Certificate of Merit in 1962 and Medal of Merit in 1964. In 1965, he received the Federal Maritime Commission's superior performance award.

Mr. Miskovsky and his wife, the former Anne Grogan, have six children. They reside at 5500 Chevy Chase Parkway, N. W., Washington, D. C.

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FBS:mm -- 1/6/66 -- DRAFT

MILAN C. MISKOVSKY NAMED ASSISTANT GENERAL COUNSEL
PRESS RELEASE
OF THE TREASURY DEPARTMENT

Treasury Secretary Henry H. Fowler today announced the appointment of Milan Carl Miskovsky as an Assistant General Counsel of the Treasury Department, effective January 10.

Mr. Miskovsky will be legal adviser to the Assistant Secretary for International Affairs and in charge of a section of lawyers which concerns itself with legal matters relating to the broad area of international monetary, financial and trade affairs with which the Treasury Department is concerned. He succeeds in this position Mr. Roy T. Englert, who has assumed the responsibilities of Assistant General Counsel for general supervision of legal work relating to the Bureausof Customs, Narcotics, Engraving and Printing, and the Coast Guard, law enforcement coordination, financial institutions, and non-tax litigation.

Mr. Miskovsky was born in Chicago, Illinois, on May 11, 1926. He studied at public schools in Chicago and was graduated from the University of Michigan with a B.S. degree in 1948. He continued his studies at Michigan in economics and ~~national~~ resources and was awarded a Master's degree in 1949. He was graduated from the George Washington University Law School in 1956 with the degree of LL.B. and was admitted to practice in the District of Columbia in 1957. His law school studies were interrupted by assignment abroad and military service.

In 1951, Mr. Miskovsky joined the Central Intelligence Agency and served as an intelligence officer until 1957. He was employed as an attorney by that Agency from 1958 to 1960, when he was appointed

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE P.M. NEWSPAPERS
FRIDAY, JANUARY 7, 1966

January 7, 1966

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Mr. Miskovsky will be legal adviser to the Assistant Secretary for International Affairs and in charge of a section of lawyers which concerns itself with legal matters relating to the broad area of international monetary, financial and trade affairs with which the Treasury Department is concerned. He succeeds in this position Mr. Roy T. Englert, who has assumed the responsibilities of Assistant General Counsel for general supervision of legal work relating to the Bureaus of Customs, Narcotics, Engraving and Printing, and the Coast Guard, law enforcement coordination, financial institutions, and non-tax litigation.

Mr. Miskovsky was born in Chicago, Illinois, on May 11, 1926. He studied at public schools in Chicago and was graduated from the University of Michigan with a B.S. degree in 1948. He continued his studies at Michigan in economics and natural resources and was awarded a Master's degree in 1949. He was graduated from the George Washington University Law School in 1956 with the degree of LL.B. and was admitted to practice in the District of Columbia in 1957. His law school studies were interrupted by assignment abroad and military service.

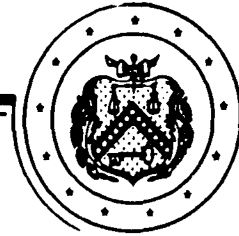
In 1951, Mr. Miskovsky joined the Central Intelligence Agency and served as an intelligence officer until 1957. He was employed as an attorney by that Agency from 1958 to 1960, when he was appointed Assistant General Counsel, serving in that capacity until 1964. In that year he was appointed Solicitor for the Federal Maritime Commission. He comes to the Treasury directly from the Federal Maritime Commission.

Mr. Miskovsky was awarded the Central Intelligence Agency's Certificate of Merit in 1962 and Medal of Merit in 1964. In 1965, he received the Federal Maritime Commission's superior performance award.

Mr. Miskovsky and his wife, the former Anne Grogan, have six hildren. They reside at 5500 Chevy Chase Parkway, N.W., Washington, .C.

-331

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, January 10, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated October 14, 1965, the other series to be dated January 13, 1966, which were offered on January 5, 6, were opened at the Federal Reserve Banks today. Tenders were invited for 300,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereuts, of 182-day bills. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing April 14, 1966		:	182-day Treasury bills maturing July 14, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.851 a/	4.545%	:	97.612 b/	4.724%
Low	98.837	4.601%	:	97.602	4.743%
Average	98.841	4.585% 1/	:	97.605	4.737% 1/

/ Excepting one tender of $40,000; b/ Excepting one tender of $300,000
2 % of the amount of 91-day bills bid for at the low price was accepted
1 % of the amount of 182-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 30,632,000	$ 19,352,000	:	$ 25,896,000	$ 24,596,000
ew York	1,468,508,000	674,998,000	:	1,350,389,000	604,064,000
iladelphia	39,963,000	30,843,000	:	24,623,000	10,925,000
leveland	61,762,000	56,762,000	:	69,619,000	49,619,000
ichmond	16,405,000	16,405,000	:	6,695,000	6,695,000
tlanta	68,511,000	62,111,000	:	37,960,000	22,834,000
icago	273,656,000	171,548,000	:	250,048,000	108,128,000
t. Louis	68,359,000	57,959,000	:	33,393,000	25,037,000
inneapolis	18,537,000	17,257,000	:	11,861,000	8,731,000
ansas City	40,789,000	39,789,000	:	16,090,000	13,512,000
allas	30,570,000	26,290,000	:	20,157,000	15,157,000
an Francisco	138,946,000	127,546,000	:	157,249,000	111,239,000
TOTALS	$2,256,638,000	$1,300,860,000 c/	:	$2,003,980,000	$1,000,537,000 d/

ncludes $307,695,000 noncompetitive tenders accepted at the average price of 98.841
ncludes $147,442,000 noncompetitive tenders accepted at the average price of 97.605
hese rates are on a bank discount basis. The equivalent coupon issue yields are 70% for the 91-day bills, and 4.92% for the 182-day bills.

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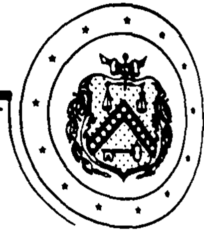
TREASURY DEPARTMENT



WASHINGTON, D.C.

January 11, 1966

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN DECEMBER

During December 1965, market transactions in direct and guaranteed securities of the government for Treasury Investment and other accounts resulted in net sales by the Treasury Department of $1,920,500.00.

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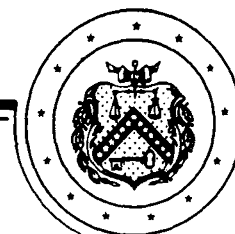
F-333

TREASURY DEPARTMENT



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F-333

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, 1965, to Jan. 10, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965, to Jan. 10, 1966
United Kingdom............	4,323,457	-	1,441,152	-
Canada....................	239,690	-	-	-
France....................	227,420	-	75,807	-
India and Pakistan........	69,627	-	-	-
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	-	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U.S..	-	-	-	-
	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

WEDNESDAY, JANUARY 12,1966

F-334

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, 1965 - January 10, 1966

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	48,956
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	18,011
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, 1965 - January 10, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	38,212,254
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	195,432
1-1/8" or more and under	4,565,642	[illegible]

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

WEDNESDAY, JANUARY 12,1966

F-334

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(In pounds)

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Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1965, to Jan. 10, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965, to Jan. 10, 1966
United Kingdom............	4,323,457	-	1,441,152	-
Canada....................	239,690	-	-	-
France....................	227,420	-	75,807	-
India and Pakistan........	69,627	-	-	-
Netherlands...............	68,240	-	22,747	-
Switzerland...............	44,388	-	14,796	-
Belgium...................	38,559	-	12,853	-
Japan.....................	341,535	-	-	-
China.....................	17,322	-	-	-
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Cuba......................	6,544	-	-	-
Germany...................	76,329	-	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U.S..	-	-	-	-
	5,482,509	-	1,599,886	-

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

F-334

Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 31, 1965
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year 1965	1,200,000	Pound	Quota filled
	Calendar year 1966	1,200,000	Pound	Quota filled [1]
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 1965	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1965	1,709,000	Pound	1,056,840 [2]

1/ Quota filled January 3, 1966.
2/ Imports as of January 10, 1966.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, JANUARY 12, 1966

F-335

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 December 31, 1965:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 31, 1965
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	1,180,897
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	53
Cattle, 700 lbs. or more each (other than dairy cows) ...	Oct. 1, 1965 - Dec. 31, 1965	120,000	Head	49,809
Cattle, less than 200 lbs. each	12 mos. from April 1, 1965	200,000	Head	69,708
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,383,589	Pound	Quota filled
Tuna Fish	Calendar year	66,059,400	Pound	49,203,807
White or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1965	114,000,000	Pound	56,214,925
Other		45,000,000	Pound	7,253,380
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1965 - Oct. 31, 1966	*84,000,000	Pieces	70,871,856

* Increased by President's Proclamation of January 7, 1966.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, JANUARY 12, 1966

F-335

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 December 31, 1965:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 31, 1965
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	1,180,897
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	53
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Commodity	Period and Quantity		Unit of Quantity	Imports as of Dec. 31, 1965
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year 1965	1,200,000	Pound	Quota filled
	Calendar year 1966	1,200,000	Pound	Quota filled 1/
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 1965	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1965	1,709,000	Pound	1,056,840 2/

1/ Quota filled January 3, 1966.
2/ Imports as of January 10, 1966.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, JANUARY 12, 1966

F-336

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1965, to December 31, 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 Dec. 31, 1965
Buttons	510,000	Gross	456,887
Cigars	120,000,000	Number	8,960,940
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	5,896,381
Tobacco	3,900,000	Pound	3,831,221

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, JANUARY 12, 1966 F-336

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Cordage	6,000,000	Pound	5,896,381
Tobacco	3,900,000	Pound	3,831,221

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 amou 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, prescrib the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public anouncement 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 Bank on January 20, 1966 (XQ), in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 20, 1966 (XX). 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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, January 12, 1966
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
(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 $2,300,000,000 (2), or thereabouts, for cash and in exchange for Treasury bills maturing January 20, 1966 (3), in the amount of $ 2,205,082,000 (4), as follows:

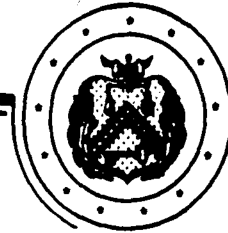
91 (5) -day bills (to maturity date) to be issued January 20, 1966 (6), in the amount of $1,300,000,000 (7), or thereabouts, representing an additional amount of bills dated October 21, 1965 (8), and to mature April 21, 1966 (9), originally issued in the amount of $ 1,002,628,000 (10), the additional and original bills to be freely interchangeable.

182 (11) -day bills, for $1,000,000,000 (12), or thereabouts, to be dated January 20, 1966 (13), and to mature July 21, 1966 (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, January 17, 1966 (15). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 12, 1966

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 $ 2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing January 20,1966, in the amount of $ 2,205,082,000, as follows:

91-day bills (to maturity date) to be issued January 20, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated October 21,1965, and to mature April 21,1966, originally issued in the amount of $1,002,628,000, the additional and original bills to be freely interchangeable.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury 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 Bank on January 20, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 20,1966. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

oOo

DRAFT PRESS RELEASE

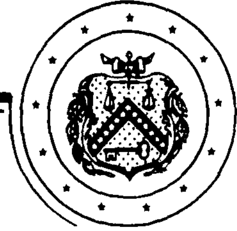
United States and Brazil to Discuss [an] Income Tax Treaty

The United States and Brazil will begin discussions shortly of a proposed tax treaty to avoid double taxation and to foster trade and investment between the two countries.

The proposed treaty will be concerned with the tax treatment of trading and other business enterprises, investment income and income from services. It is expected to follow the lines of the treaties with Thailand and Israel ~~and the Philippines,~~ now pending Senate ratification. [~~(See Executive D,~~ E and F, ~~89th Congress~~, 1st Session.)] Persons interested in a tax treaty with Brazil may ~~might~~ wish to consult these treaties and the statement by Assistant Secretary of the Treasury Stanley S. Surrey contained in the hearings on the

The proposed treaty will be concerned with the tax treatment of trading and other business enterprises, investment income and income from services. ~~It is~~ The treaty is expected to follow the lines of the treaties with Thailand and Israel, now pending Senate ratification. ~~and to include a provision for a 7 percent investment credit.~~ Persons interested in a tax treaty with Brazil may wish to consult these treaties and the statement by Assistant Secretary of the Treasury Stanley S. Surrey contained in the hearings on the treaty with Thailand before the Subcommittee on Tax Treaties of the Senate Foreign Relations Committee held in August 1965.

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 12, 1966

FOR IMMEDIATE RELEASE

UNITED STATES AND BRAZIL TO DISCUSS
INCOME TAX TREATY

The United States and Brazil will begin discussions shortly of a proposed tax treaty designed, like other tax treaties, to avoid double taxation and to foster trade and investment between the two countries.

The proposed treaty will be concerned with the tax treatment of trading and other business enterprises, investment income and income from services. The discussions will be based upon the treaties with Thailand, Israel, and the Philippines, now pending in the Senate. Persons interested in a tax treaty with Brazil may wish to consult these treaties and the statement by Assistant Secretary of the Treasury Stanley S. Surrey contained in the hearings on the treaty with Thailand before the Subcommittee on Tax Treaties of the Senate Foreign Relations Committee held in August 1965.

Persons wishing to offer suggestions for consideration in connection with the proposed treaty may send their views to Assistant Secretary of the Treasury Stanley S. Surrey before February 15, 1966.

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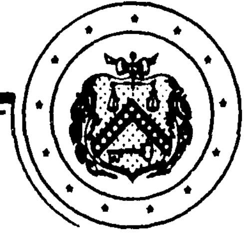
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE January 12, 1966

RESULTS OF TREASURY'S CASH OFFERING

The Treasury today announced a 14.5 percent allotment on subscriptions in excess of $50,000 for the current cash offering of $1.5 billion, or thereabouts, of 4-3/4 percent Treasury Certificates of Indebtedness of Series A-1966 due November 15, 1966. Subscriptions for $50,000 or less will be allotted in full. Subscriptions for more than $50,000 will be allotted not less than $50,000.

Reports received thus far from the Federal Reserve Banks show that subscriptions for the certificates total about $10.1 billion, of which about $9.2 billion were received from commercial banks for their own account and $0.9 billion from all others.

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

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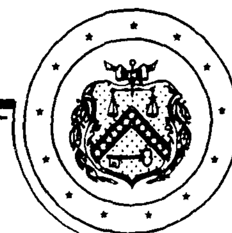
TREASURY DEPARTMENT



WASHINGTON, D.C.

January 13, 1966

ADVANCE FOR MORNING NEWSPAPERS
FRIDAY, JANUARY 14, 1966

SECRETARY FOWLER SENDS PRESIDENT'S
TAX PROPOSALS TO CONGRESS

Treasury Secretary Henry H. Fowler today transmitted to the Congress details of the tax program which President Johnson announced in his State of the Union address Wednesday, January 12.

The proposals were transmitted in a letter to Chairman Wilbur Mills of the House Ways and Means Committee and Senator Long of the Senate Finance Committee. They constitute a four-point program which would have the effect of increasing federal revenues in fiscal 1967 by about $4.8 billion.

The proposals (and their estimated effect on federal revenues in 1967):

1. A speed-up in the acceleration of corporate income tax payments. The 1964 Revenue Act provided for acceleration of corporate income tax payments to put corporations on a more current payment basis. The new proposal shortens the period over which this acceleration would be carried out, completing it in 1967 rather than 1970. (Estimated 1967 revenue effect $3.2 billion.)

2. A delay in the 1966 and later scheduled reductions of automobile and telephone excise taxes. The new proposal would delay the staged reduction of both taxes by two years, and would restore both taxes to the levels which were in effect at the end of 1965. (Estimated 1967 revenue effect $1.2 billion.)

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3. Replacement of the present 14 percent flat rate for income tax withholding on wages and salaries by a graduated, six-rate scale, so that wages withheld for income tax purposes would more closely approximate actual tax liabilities at the end of the taxable year. (Estimated 1967 revenue effect $400 million.)

4. Quarterly payment of Social Security taxes by self-employed taxpayers, to relieve them of the present obligation of making such payments in one lump sum after the end of the taxable year. (This proposal will increase Fiscal 1967 revenue by about $100 million, but since these payments go into the Social Security Trust Fund this figure will not be reflected in administrative budget receipts.)

In his letter, Secretary Fowler made clear that the President's program does not change anyone's final income tax liability, but instead is confined to rescheduling certain excise tax reductions and modification of collection procedures on existing taxes.

Secretary Fowler wrote in part:

> "The President has asked me to present the details of the tax program recommended in his State of the Union Message, on which the earliest feasible action would be desirable.
>
> "The President indicated that increases in expenditures in the fiscal years 1966 and 1967 for continuing operations in Southeast Asia would be necessary. These increased defense costs come at a time when we are reaping the benefits of prior tax reductions in the form of higher levels of income and lower unemployment. During the calendar year 1966, unemployment should fall appreciably below what has been our interim target of 4 percent.
>
> "The present economic and financial situation calls for avoiding additional stimulus to demand. Therefore, the President recommends that: (a) we reschedule the reductions in the automobile and certain telephone excises; and,

(b) modify tax collection procedures, without increasing income tax rates or changing anyone's final income tax liabilities so that the time for tax payments would be more closely linked with the income and profits on which the tax liabilities are based."

The remainder of the letter is a technical presentation of the President's Program, covering the proposals described in detail in the attachments to this release.

TAX PROGRAM - SUMMARY

The President's tax program involves four parts:

1. Excise Taxes: A proposal to restore to 7 percent the present 6 percent manufacturers' excise tax on new passenger automobiles. (This tax was reduced from 10 percent to 7 percent last year and was reduced again from 7 percent to 6 percent on January 1, 1966.)

   A proposal to restore the 10 percent excise tax on local and long distance telephone service. (This rate dropped from 10 percent to 3 percent as of January 1, 1966.)

2. Corporation Income Tax Payments Speed-Up: A proposal to require larger corporations (those with annual tax liabilities of $100,000 or more) to pay income taxes on a current basis (in the year it is earned) by 1967, instead of by 1970, as provided in the 1964 Revenue Act. The proposal would not increase corporation income tax rates or final tax liabilities.

3. Graduated Withholding for Individuals: A proposal to replace the present 14 percent flat withholding rate with a graduated withholding system for individual income taxpayers. This would result in more taxes being withheld from some taxpayers; less from others -- primarily to reduce under-withholding and, to some extent, to reduce over-withholding of income taxes on wages and salaries.

4. Quarterly Social Security Tax Payments for Self-Employed Persons: A proposal to require self-employed persons to estimate their Social Security tax in advance and pay it in current quarterly installments with their income tax. Self-employed persons now pay this tax in an annual lump sum after the end of the taxable year.

ESTIMATED REVENUE EFFECTS OF PRESIDENT'S TAX PROPOSALS

(in millions of dollars)

(Assuming March 15, 1966 Enactment)

	Receipts Increase	
	FY 1966	FY 1967
Excises:		
Local and long distance telephone, and teletypewriter service (If effective April 1, 1966)	---	$ 790
Automobiles (If effective March 15, 1966)	$ 60	$ 420
Corporate income tax payment speed-up: (If effective April 15, 1966)	$1,000	$3,200
Graduated withholding system for individual income taxes: (If effective May 1, 1966)	$ 95	$ 400
TOTAL (Administrative Budget Effect)	$1,155	$4,810
Self-employment tax, social security, quarterly payment (1) (If effective June 15, 1966)	$ 100	$ 100

l) Estimate refers to effect upon cash budget receipts.

ffice of the Secretary of the Treasury
Office of Tax Analysis

January 1966

EXCISE TAXES

PROPOSAL:

The Treasury proposal involves suspending the reduction in two excise taxes which took place January 1 -- involving new passenger automobiles and telephone service -- and delaying the further reductions of these two taxes scheduled for future years. (The schedule of reductions would be reinstated on January 1, 1968.) The proposal would not affect other taxes eliminated by the Excise Tax Reduction Act of 1965.

Automobiles: The excise tax on new passenger cars, which was reduced from 7 percent to 6 percent on January 1, would go back up to 7 percent on the day after the effective date of the legislation. The 7 percent rate was in effect from May 15 through December 31, 1965. The program would have the effect of cancelling out the one percentage point reduction scheduled for this year, but it would not restore to 10 percent the excise tax rate on passenger cars which was in effect before last May 15.

In addition, a 1 percent floor stock tax would be imposed on new cars which dealers have on hand when the 7 percent rate becomes effective. This would make the 7 percent tax rate fully effective on all new cars delivered to customers after the date of enactment.

The proposal postpones the remaining reductions of the automobile tax scheduled under the 1965 Act by two years. The 7 percent tax would remain in effect until January 1, 1968. It would then fall again to 6 percent. On January 1, 1969, it would be reduced to 4 percent; to 2 percent on January 1, 1970; and to 1 percent on January 1, 1971, where it would remain.

Telephone Service: The tax on local and long distance telephone service, which was reduced from 10 percent to 3 percent as of January 1, 1966,* would be restored to 10 percent on April 1, assuming enactment by March 15, 1966. The 10 percent rate would also be restored on teletypewriter service. This proposal would not affect the other former taxes on communications services such as -- private communications systems, telegraph service, and wire and equipment service -- which were repealed by the 1965 Act.

* Applies to bills sent to customers on or after this date.

The schedule for future reductions in the telephone tax would also be postponed two years. The rate would drop again to 3 percent on January 1, 1968; to 2 percent on January 1, 1969; and to 1 percent on January 1, 1970. As of January 1, 1971, it would be eliminated.

The automobile and telephone taxes lend themselves to adjustment because:

1. They involve substantial amounts of revenue.

2. Both these taxes are still in effect.

3. The impact of the readjustment would be dispersed over a broad segment of the public because of the widespread ownership of automobiles and use of telephones.

4. These excises involve relatively minor administrative and compliance problems for the industries involved. Any adjustments would not require reestablishing tax accounting procedures.

Recent Background:

The automobile and telephone excise taxes originated in World War II as revenue-raising and anti-inflationary fiscal devices. They remained in force through the Korean conflict and for more than a decade afterward, although the rates were readjusted.

Under President Johnson's Excise Tax Reduction Act of 1965, a schedule was established for reducing the tax on automobiles to one percent and eliminating the tax on phone service. Following that schedule, the automobile tax dropped from 10 percent to 7 percent last May 15 and from 7 percent to 6 percent on January 1. The telephone tax fell from 10 percent to 3 percent on January 1.

According to the 1965 schedule, the automobile tax was to have been reduced to 1 percent on January 1, 1969. The telephone tax was to have been eliminated on the same date. Under the new program, the schedule for reduction would simply be postponed two years in each case.

Revenue Effect:

Restoration of the previous automobile tax rate would provide an additional $60 million in revenue during fiscal year 1966.

There would be no budget effect from the telephone tax rate restoration during fiscal year 1966, since the normal allowable time lag on collecting and actually paying the tax would delay the effect of the higher rate until after June 30.

Excise tax revenues would increase by $1,210 million in fiscal year 1967. Of that total, $420 million would be from the automobile excise tax and $790 million from the telephone tax. The increase would be due both to the full year of applicability and to the suspension of the further reductions scheduled for January 1, 1967.

Comparison of Present and Proposed Excise Tax Rate Schedules for Automobiles and Telephone Service

Automobile Excise Tax

	Excise Tax Rate	
	Present Schedule	Proposed Schedule
Early 1966* - December 31, 1966	6%	7%
Calendar year 1967	4%	7%
Calendar year 1968	2%	6%
Calendar year 1969	1%	4%
Calendar year 1970	1%	2%
Calendar year 1971	1%	1%
Thereafter	1%	1%

Telephone Service Excise Tax

	Excise Tax Rate	
	Present Schedule	Proposed Schedule
Early 1966* - December 31, 1966	3%	10%
Calendar year 1967	2%	10%
Calendar year 1968	1%	3%
Calendar year 1969	0%	2%
Calendar year 1970	0%	1%
Calendar year 1971	0%	0%
Thereafter	0%	0%

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*Precise date depends on time of passage of proposed legislation.

SPEED UP IN CORPORATE INCOME TAX PAYMENTS

To put larger corporations on a more current payments basis, the proposal would speed up the accelerated corporation tax payments plan adopted by Congress in the 1964 Revenue Act.

About 16,000 corporations -- with tax liabilities in excess of $100,000 each -- would be affected.

These corporations would be put on a basis of paying income taxes in the year such income is earned, by 1967, instead of by 1970.

The proposal does not call for an increase in the corporate income tax rate, nor would it change "tolerance rules" now in the tax code which prevent penalties for under-estimation if certain requirements are met.

Present Law:

Under present law, and assuming that a corporation with a fiscal year ending December 31 estimated taxes (in excess of $100,000) at the full amount, the corporation paid 4 percent of estimated tax liabilities in April, and another 4 percent in June, 1965.

These were followed by two payments of 25 percent in September and December, 1965.

For this corporation, what would come next is two clean-up payments of 1965 taxes of 21 percent each in March and June 1966, to round the total out to 100 percent.

Also under present law, the corporation, in the example above, would have its estimated payments step up to 9 percent of calendar 1966 income in April and again in June 1966; to 14 percent each in April and June 1967 on estimated 1967 income; to 19 percent each in April and June 1968 on 1968 income; to 22 percent each in April and June 1969 on 1969 calendar year income; and to 25 percent each in April and June 1970 on 1970 income.

As these April and June payments step up, the clean up payments in the first half of the following year would decline.

The September and December instalments on estimated current year tax liabilities (in excess of $100,000) would remain at 25 percent throughout.

The Speed-Up Plan:

Starting in 1966 (that would be April 15, 1966 for a corporation with a fiscal year ending December 31), larger corporations would pay 12 percent (not 9 percent) of current year tax liabilities in excess of $100,000 in April and again in June this year.

Still assuming that the corporation estimates 100 percent of its tax liabilities in excess of $100,000, the April and June payments would be 25 percent each in 1967.

Thus, in 1967, the corporation in the example, would pay 25 percent of its estimated tax in April, 25 percent in June, 25 percent in September and 25 percent in December.

The proposal would not alter present "tolerance rules." Under these rules, there is no penalty for underpayment of the tax if the estimated tax payments are based upon:

1. 70 percent of the actual tax in excess of $100,000;

2. Last year's tax, in excess of $100,000;

3. The tax (in excess of $100,000) at current rates on last year's income; or

4. 70 percent of the tax for the current year (in excess of $100,000) computed on the basis of an annualization of the year's income to date.

Revenue Effect:

The speed-up of the corporate income tax payments, assuming it takes effect by April 15, 1966, would increase collections by about $1 billion in fiscal 1966, and by $3.2 billion in fiscal 1967.

Tables: The following tables compare present and proposed corporation income tax payment schedules, expressed as a percent of calendar year tax liablility, and assuming that a corporation estimates 100 percent of income. Table 1 gives the present law; Table 2, the proposed speed-up:

- Table One - (Present Law) *

Calendar year	Current Taxable year: April 15	June 15	Sept. 15	Dec 15	Following year: March 15	June 15
	1966 - 1971 Payment schedule under present law:					
1966	9	9	25	25	16	16
1967	14	14	25	25	11	11
1968	19	19	25	25	6	6
1969	22	22	25	25	3	3
1970	25	25	25	25		
1971 and subsequent years.	25	25	25	25		

* (tax in excess of $100,000 and assuming 100 percent estimation).

- Table Two - (PROPOSAL) *

alendar year	Current taxable year :April 15	: June 15	: Sept. 15	: Dec. 15	Following year : March 15	: June 15
	1966 - 1968 Payment schedule under proposed law:					
966	12	12	25	25	13	13
967	25	25	25	25		
968	25	25	25	25		

* (tax in excess of $100,000 and assuming 100 percent estimation).

GRADUATED INCOME TAX WITHHOLDING FOR INDIVIDUALS

To reduce the problems created by the present 14 percent flat-rate withholding system for individual taxpayers in virtually all income groups, a new system of six graduated income tax withholding rates is proposed, beginning on May 1, 1966.

The new system would relieve many taxpayers of the problem of having to pay large, and often unanticipated, lump sum amounts on their income taxes. It also would reduce over-withholding for many low-income taxpayers.

The new system would make withholding far more exact. Under the graduated withholding system, 29 million wage and salary earners will have their withholding come within $10 of their actual tax liability. This compares to 12 million taxpayers under the present system. (See Table 4.)

The proposal would use six rates to withhold taxes from wages and salaries that are more closely related to the actual amount of tax liability -- assuming that the taxpayer claims deductions of about 10 percent of his income.

In addition, the proposed system would reflect the minimum standard deduction (claimed primarily by lower income taxpayers) where it exceeds the 10 percent standard deduction. Here is how this would work:

(1) No withholding would be required on the first $200 of wages (less exemptions) to reflect the basic $200 minimum standard deduction granted each taxpayer; and

(2) For withholding schedules, the value of each exemption would be increased to reflect the $100 additional minimum standard deduction allowed for each exemption.

The graduated withholding rate schedule below (Table A) illustrates how this would apply to a single person. A head-of-household would use the schedule applicable to single persons. A separate rate schedule (Table B) would apply to married persons.

TABLE A

SINGLE

If the amount of wages and salaries (in excess of $700 times the number of personal exemptions) is	The amount of income tax to be withheld is:
Not over $200	0
Over $200 but not over $700	14% of wages and salaries in excess of $200
Over $700 but not over $1,200	$70 plus 15% of wages and salaries in excess of $700
Over $1,200 but not over $4,400	$145 plus 17% of wages and salaries in excess of $1,200
Over $4,400 but not over $8,800	$689 plus 20% of wages and salaries in excess of $4,400
Over $8,800 but not over $11,000	$1,569 plus 25% of wages and salaries in excess of $8,800
Over $11,000	$2,119 plus 30% of wages and salaries in excess of $11,000

TABLE B

MARRIED

If the amount of wages and salaries (in excess of $700 times the number of personal exemptions) is:	The amount of income tax to be withheld is:
Not over $200	0
Over $200 but not over $1,200	14% of wages and salaries in excess of $200
Over $1,200 but not over $4,400	$140 plus 15% of wages and salaries in excess of $1,200
Over $4,400 but not over $8,800	$620 plus 17% of wages and salaries in excess of $4,400
Over $8,800 but not over $17,700	$1,368 plus 20% of wages and salaries in excess of $8,800
Over $17,700 but not over $22,000	$3,148 plus 25% of wages and salaries in excess of $17,700
Over $22,000	$4,223 plus 30% of wages and salaries in excess of $22,200

Recent Background:

Under present law, wages and salaries are subject to withholding at a flat 14 percent rate, which is equivalent to the average of the present first four tax bracket rates (14,15, 16 and 17 percent) adjusted for the 10 percent standard deduction. However, annual tax liability for the individual taxpayer very often is computed after accounting for itemized deductions or a minimum standard deduction in excess of the 10 percent standard deduction.

About 63.1 million individual taxpayers are affected by income tax withholding (but do not make quarterly declaration payments).

Approximately $36.5 billion is collected from these 63.1 million taxpayers -- with $2.4 billion representing under-withholding, and $6 billion of this total representing over-withholding.

Revenue Effect:

If Congress approves the new system in time for it to take effect by May 1, 1966, it would increase budget receipts from withholding by $95 million in fiscal 1966 and by about $400 million in fiscal 1967.

Effect on Withholding, Under-Withholding, and Over-Withholding:

1. Total Withholding. The proposal would increase the amount of withholding by $1,240 million, assuming a full-year effect.

How It Will Effect Taxpayers: (See Attached Tables 1, 2, and 3)

TABLE 1

Tax Liability and Withholding Under Present 14 Percent Withholding and Graduated Withholding For Selected Taxpayers 1/

Wage income	Tax liability	Amount of withholding: Present 14 percent 2/	Amount of withholding: Graduated withholding	Change in withholding	Overwithholding (+) or underwithholding (-): Present 14 percent	Overwithholding (+) or underwithholding (-): Graduated withholding
			Single Individual			
$ 1,000	$ 14	$ 47	$ 14	$ -33	$ +33	$ --
2,000	161	187	162	-25	+26	+1
3,000	329	327	332	+5	-2	+3
5,000	671	607	672	+65	-64	+1
7,500	1,168	957	1,169	+212	-211	+1
10,000	1,742	1,307	1,694	+387	-435	-48
12,500	2,398	1,657	2,359	+702	-741	-39
15,000	3,154	2,006	3,109	+1,103	-1,148	-45
20,000	4,918	2,707	4,609	+1,902	-2,211	-309
25,000	6,982	3,407	6,109	+2,702	-3,575	-873

January, 1966

Office of the Secretary of the Treasury, Office of Tax Analysis

1/ Assumes deductions equal to 10 percent of income or the minimum standard deduction, whichever is larger.

2/ Computed on an annual basis by the percentage method which may differ slightly from withholding tables. Assumes employment is regular and all exemptions claimed for the entire year for withholding purposes.

Tax Liability and Withholding Under Present 14 Percent Withholding and Graduated Withholding For Selected Taxpayers 1/

Wage income	Tax liability	Amount of withholding: Present 14 percent 2/	Amount of withholding: Graduated withholding	Change in withholding	Overwithholding (+) or underwithholding (-): Present 14 percent	Overwithholding (+) or underwithholding (-): Graduated withholding
Married Couple, No Dependents						
$ 3,000	$ 200	$ 233	$ 200	$ -33	$ +33	$ --
5,000	501	513	500	-13	+12	-1
7,500	914	863	909	+46	-51	-5
10,000	1,342	1,213	1,334	+121	-129	-8
12,500	1,831	1,563	1,828	+265	-268	-3
15,000	2,335	1,913	2,328	+415	-422	-7
20,000	3,484	2,613	3,373	+760	-871	-111
25,000	4,796	3,313	4,703	+1,390	-1,483	-93

January 1966

Office of the Secretary of Treasury, Office of Tax Analysis

1/ Assumes deductions equal to 10 percent of income or the minimum standard deduction, whichever is larger.

2/ Computed on an annual basis by the percentage method which may differ slightly from withholding tables. Assumes employment is regular and all exemptions claimed for the entire year for withholding purposes.

Table 3

Tax Liability and Withholding Under Present 14 Percent Withholding and Graduated Withholding For Selected Taxpayers 1/

Wage income	Tax Liability	Amount of withholding: Present 14 percent 2/	Amount of withholding: Graduated withholding	Change in withholding	Overwithholding (+) or underwithholding (-): Present 14 percent	Overwithholding (+) or underwithholding (-): Graduated withholding
Married Couple, Two Dependents						
$ 3,000	$ 0	$ 46	$ 0	$ -46	$ +46	$ --
5,000	290	326	290	-36	+36	--
7,500	686	676	671	-5	-10	-15
10,000	1,114	1,026	1,096	+70	-88	-18
12,500	1,567	1,376	1,548	+172	-191	-19
15,000	2,062	1,726	2,048	+322	-336	-14
20,000	3,160	2,426	3,048	+622	-734	-112
25,000	4,412	3,126	4,283	+1,157	-1,286	-129

January 1966

Office of the Secretary of Treasury, Office of Tax Analysis

1/ Assumes deductions equal to 10 percent of income or the minimum standard deduction, whichever is larger.

2/ Computed on an annual basis by the percentage method which may differ slightly from withholding tables. Assumes employment is regular and all exemptions claimed for the entire year for withholding purposes.

TABLE 4.
Effect of Proposed Graduated Withholding
On Present Law Withholding (1966 Levels) 1/

	Present 14 percent withholding	Net change from present law	Proposed graduated withholding
1 returns			
A. Number of returns (millions)			
1. Overwithholding	36.9	-13.1	23.8
2. Underwithholding	14.2	-3.8	10.4
3. Breakevens 2/	12.0	+16.9	28.9
4. Total	63.1	--	63.1
B. Amount ($ millions)			
1. Overwithholding	6,000	+50	6,050
2. Underwithholding	2,400	-1,190	1,210
3. Total withholding	36,500	+1,240	37,740
der $5,000 AGI **(Adjusted Gross Income)**			
A. Number of returns (millions)			
1. Overwithholding	19.3	-12.6	6.7
2. Underwithholding	2.8	-0.3	2.5
3. Breakevens 2/	9.3	+12.9	22.2
4. Total	31.4	--	31.4
B. Amount ($ millions)			
1. Overwithholding	1,872	-500	1,372
2. Underwithholding	233	--	233
3. Total withholding	5,600	-500	5,100
,000 - $10,000 AGI **(Adjusted Gross Income)**			
A. Number of returns (millions)			
1. Overwithholding	14.7	-2.6	12.1
2. Underwithholding	5.7	-1.2	4.5
3. Breakevens 2/	2.3	+3.8	6.1
4. Total	22.7	--	22.7
3. Amount ($ millions)			
1. Overwithholding	3,510	-20	3,490
2. Underwithholding	798	-250	548
3. Total withholding	18,000	+230	18,230
),000 and over AGI **(Adjusted Gross Income)**			
1. Number of returns (millions)			
1. Overwithholding	2.9	+2.1	5.0
2. Underwithholding	5.7	-2.3	3.4
3. Breakevens 2/	0.4	+0.2	0.6
4. Total	9.0	--	9.0
3. Amount ($ millions)			
1. Overwithholding	618	+570	1,188
2. Underwithholding	1,369	-940	429
3. Total withholding	12,900	+1,510	14,410

Treasury Department, Office of the Secretary
Office of Tax Analysis

January, 1966

Based on taxable and nontaxable returns with salaries and wages and no declaration payments.

Breakeven defined as within $10 of the tax liability.

SELF-EMPLOYMENT TAX

The program includes a proposal to bring the payment of Social Security taxes by self-employed persons to an approximately current basis. (in effect, "Pay-As-You-Go.")

Persons who are employed by others have their Social Security tax payments deducted from their wages or salaries on a current basis, along with their federal income taxes. Self-employed persons pay their federal income taxes on a current basis by means of the declaration and quarterly payment of their estimated tax. But they pay their Social Security tax in one lump sum on April 15 each year.

The proposal is that self-employed persons should include their Social Security tax in the estimated tax declaration and pay it in quarterly installments along with their income tax payments. This would have two major advantages:

1. It would put self-employed persons on a more current footing and a more equal footing with other taxpayers, who are required to be current in their Social Security tax payments through payroll deductions.

2. It would eliminate the burden of a large annual lump-sum for self-employed persons. Many self-employed taxpayers have been finding it increasingly difficult to meet their Social Security tax liability when it comes due in a lump sum. With the increases in the level of Social Security taxes and benefits in recent years, the self-employment tax has come to involve a substantial sum. This year, the maximum tax will be $405.90, the amount which must be paid by anyone with earnings of $6,600 or more subject to the self-employment tax. Such an amount is often a real burden when added to a substantial income tax payment. It may be even more burdensome to self-employed persons whose taxable income is not large enough to require an income tax payment, but who are nevertheless liable for the lump-sum Social Security tax payment on April 15.

Under the proposal, self-employed persons would shift their Social Security tax payments to a current quarterly schedule. They would become nearly current in 1966 by adding to the declaration of estimated income tax an estimate of three-fourths of the Social Security tax they would owe for this year, and paying that amount in three installments. These would be due on June 15 and September 15 of 1966 and January 15, 1967. They would become fully current in 1967 by estimating the entire self-employment tax and paying it in four quarterly installments with their quarterly income tax payments.

No estimate or quarterly payment would be required if the combined estimated income tax and self-employment tax totalled $40 or less. Farmers and fishermen, who are not required to make quarterly payments of estimated income tax, would pay their Social Security tax in the same way they pay their income tax under present law.

This proposal would result in an increase of $100 million annually in Social Security tax collections for both fiscal year 1966 and 1967. It would require about one million additional taxpayers to file declarations.

The attached tables show the growth in self-employment tax liability since 1951.

Attachment

Table 1

Growth in Maximum Dollar Amount of
Self-Employment Tax for Individuals

Year	Net earnings base a/	Tax rate	Maximum contribution per person
1951 - 53	$3,600	2.25%	$ 81.00
1954	3,600	3.0	108.00
1955 - 56	4,200	3.0	126.00
1957 - 58	4,200	3.375	141.75
1959	4,800	3.75	180.00
1960 - 61	4,800	4.5	216.00
1962	4,800	4.7	224.60
1963 - 65	4,800	5.4	259.20
1966	6,600	6.15 b/	405.90
1967 - 68	6,600	6.40	422.40

Office of the Secretary of the Treasury
Office of Tax Analysis

January, 1966

a/ The minimum net earnings subject to the self-employment rate has been $400 since 1951.

b/ Includes OASDI tax rates and HI tax rate for 1966 and all following years.

Note: Further scheduled increases will raise the maximum contribution per person to $514.80 in 1987.

Table 2

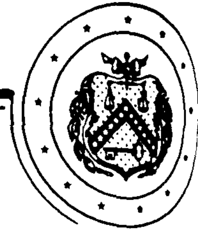
Growth In Self-Employment Tax Liability

Year	Self-employment tax: Number of income tax returns reporting self-employment tax	Amount of self-employment tax	Average tax per return
	(In millions)	($ Millions)	
1951	4.4	$ 211.3	$ 51.90
1952	4.1	217.5	53.60
1953	4.2	226.6	53.70
1954	4.2	301.5	71.60
1955	6.6	463.2	69.70
1956	7.4	533.1	72.50
1957	7.0	581.2	83.10
1958	7.0	589.2	84.00
1959	7.0	701.5	99.70
1960	6.9	833.5	121.00
1961	6.7	840.1	124.50
1962	6.7	887.2	132.90
1963	6.5	1,002.2	154.60
1964 (prelim.)	6.3	1,009.0	160.00
1965 (est.)	6.2	1,050.0	169.00
1966 (est.)	6.1	1,500.0	246.00

Office of the Secretary of the Treasury
Office of Tax Analysis

January 1966

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 14, 1966

FOR IMMEDIATE RELEASE

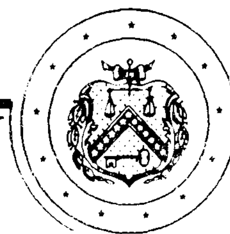
TREASURY DECISION ON VELVET FLOOR COVERINGS
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed its investigation with respect to the possible dumping of velvet floor coverings from Great Britain, manufactured by Carpet Trades Limited, Kidderminster, Great Britain. A notice of a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended, will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Great Britain, manufactured by Carpet Trades Limited, Kidderminster, Great Britain, has not been withheld at this time.

Imports of the involved merchandise received during the period October 1, 1964, through September 30, 1965, amounted to approximately $42,000.

TREASURY DEPARTMENT



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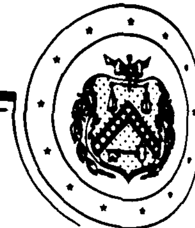

WASHINGTON, D.C.

January 17, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON TITANIUM DIOXIDE UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that titanium dioxide, pigment grade, from West Germany, manufactured by Farbenfabriken Bayer A.G., Leverkusen, Germany, is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. This action is being taken pursuant to a "Notice of Tentative Determination," published in the Federal Register on November 18, 1965.

There are under consideration two types of pigment grade titanium dioxide, anatase and rutile. Anatase titanium dioxide is a low-energy crystal form used in paper manufacture and in the production of paints where chalking tendencies are desired, while rutile, a higher-energy crystal form, is used in paints where higher opacity per unit of weight is desired.

All submissions received in opposition to the tentative determination were given full consideration.

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

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

Imports of the involved merchandise received during the period July 1, 1964, through October 31, 1965, amounted to approximately $3,950,000.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 17, 1966

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TREASURY DEPARTMENT
Washington

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE SWEARING-IN OF DR. BENJAMIN CAPLAN AS
DIRECTOR, OFFICE OF PLANNING AND PROGRAM EVALUATION
ON MONDAY, JANUARY 17, 1966 AT 12:00 NOON
IN ROOM 4121 MAIN TREASURY BUILDING

Our action today installing Dr. Benjamin Caplan in his newly created post reflects the President's desire to establish throughout government a new planning-programming-budgeting system. The object of such a system is to apply the most modern management tools to the task of reducing operating expenses.

We in the Treasury have always been cost-conscious, just as we have always been keenly aware of the necessity for intelligent planning. The constructive changes that we have initiated during the past few years, changes that have touched almost every facet of our operations, reflect our concern for getting the most out of every tax dollar we spend, improving our services to the public, and effectively utilizing the creative abilities of all Treasury employees.

As the first Director of the new Office of Planning and Program Evaluation, Dr. Caplan will be the key factor in bringing an integrated planning-programming-budgeting system into being in the Treasury Department. It will be his responsibility to see that the Treasury does everything within its power to carry out President Johnson's and my desires not only to introduce this new system effectively throughout Treasury, but also to initiate both short and long-range analytical studies and develop plans of major significance to the future direction of Treasury operations. In this respect, Dr. Caplan, I can assure you that you will have the support and good counsel of the heads of Treasury Bureaus and Offices -- in fact, of every Treasury employee -- in effectively carrying out your assignment.

It is particularly fitting and fortunate that we should have in this new job a man of Dr. Caplan's proved administrative and executive talents. He has extensive experience both in government and private industry. For the past three years

(MORE)

Dr. Caplan has been Director of the Office of International Affairs in the State Department where he has been concerned with balance of payments programs, measures dealing with international liquidity changes in exchange rates, and stabilization programs of foreign countries. Previously, Dr. Caplan was with the Institute for Defense Analysis and the Office of Civil and Defense Mobilization. In these positions he was directly concerned with the application of systems analysis to numerous economic problems affecting our national security, and with the evaluation of the effectiveness of mobilization programs. A former university instructor in economics at Ohio State University, Dr. Caplan is also the author of many articles on economics and the investment flow of capital.

We are happy indeed to welcome Dr. Benjamin Caplan into the Treasury.

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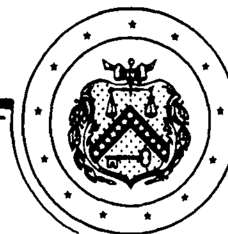
TREASURY DEPARTMENT



WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
mday, January 17, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated October 21, 1965, d the other series to be dated January 20, 1966, which were offered on January 12, 66, were opened at the Federal Reserve Banks today. Tenders were invited for ,300,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereouts, of 182-day bills. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing April 21, 1966		:	182-day Treasury bills maturing July 21, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.822	4.660%	:	97.593 a/	4.761
Low	98.817	4.680%	:	97.586	4.775
Average	98.819	4.673% 1/	:	97.589	4.770 1/

a/ Excepting one tender of $1,000
74% of the amount of 91-day bills bid for at the low price was accepted
50% 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
3oston	$ 26,423,000	$ 15,085,000	:	$ 29,862,000	$ 9,762,000
New York	1,549,658,000	856,718,000	:	1,373,706,000	593,916,000
Philadelphia	27,670,000	15,644,000	:	22,674,000	7,174,000
Cleveland	28,294,000	28,294,000	:	98,888,000	56,438,000
Richmond	14,916,000	13,916,000	:	5,834,000	5,827,000
Atlanta	40,197,000	24,293,000	:	50,746,000	13,857,000
Chicago	350,912,000	201,986,000	:	335,384,000	174,134,000
St. Louis	63,627,000	40,663,000	:	29,950,000	14,450,000
Minneapolis	19,722,000	13,592,000	:	9,798,000	7,048,000
Kansas City	31,238,000	28,238,000	:	14,667,000	13,792,000
Dallas	28,270,000	20,010,000	:	13,463,000	8,463,000
San Francisco	114,862,000	42,407,000	:	180,618,000	96,208,000
TOTALS	$2,295,789,000	$1,300,846,000 b/		$2,165,590,000	$1,001,069,000 c/

Includes $260,883,000 noncompetitive tenders accepted at the average price of 98.819
Includes $127,635,000 noncompetitive tenders accepted at the average price of 97.589
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.79% for the 91-day bills, and 4.96% for the 182-day bills.

TREASURY DEPARTMENT
Washington

FOR RELEASE AT 12:30 P.M., EST
TUESDAY, JANUARY 18, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE NEW YORK STATE INDUSTRIAL PAYROLL
SAVINGS COMMITTEE LUNCHEON-MEETING
AT THE NEW YORK HILTON HOTEL, NEW YORK, NEW YORK
TUESDAY, JANUARY 18, 1966, 12:30 P.M., E.S.T.

We meet on behalf of a program whose symbol -- the Minuteman of Concord -- could not be more appropriate or more pertinent than it is today.

For the Minutemen of Concord took up arms to win, not only for themselves but for all the unborn generations of Americans to come, the freedom to live their own lives and pursue their dream of a Great Society in whose abundant life every man could share to the fullest measure of his ability and his desire.

Today, in Southeast Asia, we take up arms to help others in their struggle for survival as a free and independent nation -- and at home we labor to build for all Americans a society worthy to be called great.

There are those, as you know, who have felt that we must forego the effort in Vietnam -- just as there are those who have felt that, because of Vietnam, we must forego our efforts here at home.

Last Wednesday, in his Message on the State of the Union, President Johnson made abundantly clear that we need not, and will not, forego either effort. At the same time, he stressed, the war in Vietnam means that, at home, "we cannot do all we should, or all we would like to do" -- although we must, and will, continue to do all that we can.

Because of Vietnam, therefore, we must proceed at a slower speed and on a smaller scale toward meeting our needs at home -- but proceed we can and proceed we must.

We can do so because our economic policies and programs in recent years have met with such signal success.

We can do so because our economy has flourished under a fiscal program designed to encourage strong and stable growth in the private economy through a combination of massive reductions in Federal tax rates and suitable restraints upon the growth of Federal expenditures.

Let us reflect for a moment on these three sources of strength and confidence -- a flexible fiscal program, a dynamic private economy growing at a stable and healthy rate, and a disciplined restraint on the growth of Federal expenditures.

Increases in private investment and consumption have flowed from the investment tax credit of 1962 and its improvement in 1964, the liberalization of depreciation in 1962 and 1965, the record cut in personal and corporate income tax rates in the Revenue Act of 1964, and the broad program to abolish most Federal excise taxes adopted and begun in 1965. This year wage earners and investors are receiving tax reductions of around $20 billion as a result of these measures.

This fiscal policy was a major contributing factor to the resurgent economic performance of the last five years. Our gross national product has increased from a rate of $504 billion in the first quarter of 1961 to a $695 billion rate in the fourth quarter of 1965. This increase in our national output in less than five years -- this icing on the cake -- surpasses the total annual output of any other nation of the Free World and continues to widen the already enormous gap between productive capacity of the Soviet Union and our own. Our expansion represents a rate of growth of about 5½ percent in constant dollars -- more than double the rate of the preceding years that followed the termination of the Korean War -- comparing favorably with that of Western Europe, which last year averaged around 3½ percent.

This rising economic activity -- rising incomes and profits, rising sales and jobs, and rising investment and productivity -- has meant rising revenues for our Federal, State and local governments.

According to our estimates, administrative budget receipts under present law would be about $21 billion greater in fiscal 1966 than five years ago -- more than double the increases in the previous half decade when there were no significant tax reductions.

But what about Federal expenditures -- the third element?

President Johnson's unrelenting insistence, in his words, that "every dollar is spent with the thrift and with the common sense which recognizes how hard the taxpayer worked in order to earn it" has amounted to a new policy of expenditure control. Here are some of the results:

1. The original estimated expenditure level of $98.8 billion in the 1964 budget was reduced $1.1 billion to an actual $97.7 billion.

2. An estimated $97.9 billion expenditures for fiscal 1965, ending last June 30, were reduced $1.4 billion to an actual $96.5 billion.

3. These actual expenditures for fiscal 1965 were $1.2 billion less than those in fiscal 1964 and $2.3 billion less than those originally projected for fiscal 1964.

4. The expenditure target for fiscal 1966 was fixed last January at $99.7 billion. Some $4.7 billion of additional expenditures resulting from accelerated military activity in Vietnam were unavoidable. Some $2 billion of uncontrollable or legislated expenditures also could not be avoided. These included $740 million of military and civilian pay increases voted by Congress in excess of Presidential recommendations, and additional $500 million increase in veterans pensions, a $500 million increase in interest charges on the debt and a half billion each of payments required by law under the space and agricultural commodity programs. They more than wiped out economies realized since the original estimate.

In summary, had it not been for these unavoidable cost increases in Vietnam and the uncontrollable increases cited, the President in nearly three years in office would have held expenditures in the administrative budget to an average annual increase of less than $1 billion more than the amount estimated for the fiscal year in which he assumed office. This should be compared with the average increase of $3 billion per year over the previous ten years.

And yet during the same recent period, this stringent emphasis on cost reduction and program evaluation paid huge dividends by

enabling the nation to afford urgent new programs through savings on those of lesser urgency and through greater productivity in existing programs.

The national strength, confidence, and flexibility which the results of this fiscal program now provide enable us to carry on the fight for freedom in South Vietnam without abandoning the effort for the Great Society at home. This was the striking feature of the President's announcement of Wednesday night that the enactment of all his recommendations will entail a deficit in the administrative budget for fiscal 1967 of only $1.8 billion -- the smallest in seven years -- and will give us a surplus of $500 million in the cash budget.

This will be true despite an increase in special costs of Vietnam of $10.4 billion in fiscal 1967 over the 1965 fiscal year level -- a $5.8 billion increase in fiscal 1967 on top of an increase of $4.6 billion in fiscal 1966.

But the new budget represents more than a reflection -- however bright -- of past success. Above all, it represents a full recognition of,and an effective response to, the present need for fiscal responsibility if -- at a time of increasing defense expenditures and active military operations added on top of a burgeoning private economy -- we are to maintain strong and stable growth in an economy where the gap between demand and efficient production and supply has markedly narrowed.

The new program is based as before, on fiscal flexibility, a healthy economy, and a disciplined application of sound expenditure control policies.

The fiscal dividends in the form of increased revenues derived from a projected expansion of the economy in calendar 1966 to a gross national product slightly in exess of $720 billion -- from a level of $675.6 billion in calendar 1965 -- will be applied to the increased requirements of South Vietnam.

A disciplined restraint in expenditures in the budget apart from special Vietnam costs is equally necessary. The answer -- all other expenditures put together in the entire federal budget are projected by the President to rise this coming fiscal year only $600 million -- even though some segments of the budget in the field of education, health and the war on poverty will be substantially increased. How? Because of stringent economies in the other less urgent areas of the budget.

But even these fiscal features are not enough. Even the application of the fiscal dividends from growth and from holding down the increases in the budget in the areas other than Vietnam operations will still leave a sizeable deficit at a time when the economic and financial situation calls for avoiding additional stimulus to demand.

Fiscal flexibility is called for. It takes the form of a tax program that will increase federal revenues in the administrative budget for fiscal 1966 by $1.2 billion and in fiscal 1967 by an additional $3.6 billion, for a total in fiscal 1967 of $4.8 billion -- enough to bring the administrative deficit down to a tolerable figure ($1.8 billion) and produce a cash surplus of $500 million.

This program -- summarized in the President's State of the Union Message last Wednesday and spelled out in detail in my letter the following day to the Chairmen of the tax writing committees -- would (a) modify income tax collection procedures, without increasing income tax rates or changing anyone's final income tax liabilities and (b) temporarily postpone the scheduled excise tax reductions on two items.

More specifically the program includes:

1. A speed-up in the acceleration of corporate tax payments -- which would simply telescope the acceleration timetable established by the Revenue Act of 1964 and move the completion date up from 1970 to 1967;

2. A delay in the 1966 and later scheduled reductions of automobile and telephone excise taxes -- postponing for two years the staged reduction of these taxes and restoring them in the interim to the levels in effect at the end of 1965;

3. Replacement of the present 14 percent flat rate for income tax withholding on wages and salaries by a graduated, six-rate scale, so that wages withheld for income tax purposes would more closely approximate actual tax liabilities at the end of the taxable year;

4. Quarterly payment of Social Security taxes by self-employed taxpayers, to relieve them of the present obligation of making such payment in one lump sum after the end of the taxable year (which goes into the Trust Fund and does not affect the administrative budget).

The economic and financial effect of these measures, over the near term, would be to diminish the inflationary potential in the economy and raise federal revenues to a point where we can project a near balanced budget in a near full employment economy.

These measures, we believe, should furnish some restraining influence against any potential excessive economic exuberance without harming the continued healthy growth of our economy -- and we must, in our zeal to avoid the onslaught of inflation, take care that in trying to prevent the disease we do not imperil the patient. At the same time, we all recognize that the most present danger before us -- whose avoidance will require our most wary and watchful vigilance -- is the danger of economic excess, not economic deficiency.

The President has, time and again, declared his determination to use every resource available to him to maintain our economic momentum free of inflation. He made plain last Wednesday, that -- and I quote -- "if the necessities of Vietnam require it, I will not hesitate to return to the Congress for additional appropriations, or additional revenues if they are needed."

Today, therefore, in clear contrast to the situation at any time over the past five years, the economic realities call for increased restraint on the part of us all -- for continued cooperation between both the public and private sectors in adapting their plans and programs to current economic circumstances.

In particular, let me stress the fact that, while the government can do a great deal to create a climate to

encourage non-inflationary growth, it is upon the shoulders of our businesses and our unions that the responsibility squarely rests for pursuing non-inflationary price and wage policies. And today -- when we fight a brutal war in Vietnam -- it is imperative that wage and price increases remain within the guideposts set by the President's Council of Economic Advisers -- or we run the grave risk of squandering the gains for which we have all worked so hard and so long and of undermining the economic strength which must support, not only the struggle in Vietnam, but our efforts elsewhere in the world and here at home.

In the days and months ahead, therefore, all of us -- in government and in the private sector -- must bear an extra burden of responsibility in a national effort to keep a sure and steady economic footing while we continue to move ahead. And there is a special sense in which you here today can help in that effort -- for now more than ever it is essential that we finance our debt without inflation, and now more than ever it is essential that we do all we can to encourage greater savings throughout our economy.

Through the payroll savings program -- on whose behalf we meet today -- we accomplish both these ends at once.

The first principle of debt management is, of course, to keep the debt from growing to an unmanageable size -- and nowhere is our success in doing that better illustrated than in the budgets President Johnson has presented and carried out, and most particularly in the budget he will shortly present for fiscal 1967.

Let me simply cite the record: The 1964 budget submitted three years ago forecast a deficit of $11.9 billion premised in part on major tax reduction. This was reduced in the final outcome to $8.2 billion for the fiscal year 1964.

Last year's budget contained an estimated deficit for fiscal 1965 of $6.3 billion. This was trimmed down to $3.4 billion.

The budget submitted last January projected a $5.3 billion deficit for fiscal 1966. As of June 30, this estimate has been cut to $4.2 billion. Had it not been for the additional defense needs resulting from Vietnam, the higher revenues that are flowing from our vigorous expansion since

June 30 would have produced a still smaller estimated deficit in the current fiscal year.

Had it not, in fact, been for the increases projected for Vietnam expenditures in fiscal 1966 and fiscal 1967 since the 1966 budget was originally submitted last January, we could have used the fiscal dividends of this continued expansion to balance the budget in fiscal 1967 and still had room for some increases in civilian expenditures or additional tax reduction.

As a result of this record of expenditure control, Treasury demands on our capital markets have not been -- and will not be -- as great as many have expected. And, in the future as in the past, we will continue -- consistent with minimum cost and other debt management objectives -- to place our debt in the most non-inflationary manner possible.

Our entire debt increase in calendar 1965 was financed outside the banking system -- despite the sharp step-up in spending for Vietnam. Indeed, commercial bank holdings of Treasury issues steadily declined by several billions of dollars during the last year.

The Savings Bonds program, as you know, is vital to the success of our debt management policy -- and in the months ahead it could prove one of our most valuable weapons in averting inflation.

The fact that E and H Bonds outstanding now account for some 23 percent -- or $49 billion -- of the entire publicly held Federal debt is an abundant indication both of the importance of Savings Bonds to Federal debt management and of the tremendous job done by the corps of volunteers -- whose dedication and abilities are not better exemplified than they are here today -- who have advanced the Savings Bonds program.

Each of you, by your leadership in one of America's great industries, is making a substantial contribution to the stability and strength of our economy. By your presence here today -- by your willingness to take a leading part in encouraging greater participation in the Payroll Savings Plan in your own companies -- you are adding immeasurably to that contribution.

The results of last year's campaign are impressive. There were some one-and-a-quarter million new participants in the

Payroll Savings plan. Of that number, some 180,881 were employees of the companies represented on our U.S. Industrial Payroll Savings Committee. As a result, the overall sale of the Payroll-Saver bonds -- that is, the $25 to $200 denominations -- is today running at a rate of more than $3 billion annually, accounting for some 68 percent of the E and H Bond sales dollar.

In this new year of 1966 -- in this Silver Anniversary year of the Savings Bonds program -- our target and your mission is to enroll 1,200,000 new employee participants in the Payroll Plan.

The challenge is clear: next year more people will be at work than ever before -- and at higher wages and salaries. And while no one can say how many new jobs we will have next year, let no one underestimate the job-creating capacity of our economy -- which has generated some 2.7 million new non-farm jobs over the past year, and some 8 million new non-farm jobs over the past five years.

In little more than a month, our economy will enter its sixth year of unbroken expansion, and during the year unemployment should fall appreciably below what has been our interim target of 4 percent. As a result, many thousands of Americans will just be reaching a threshold of financial well-being that will enable them, for the first time, to take part in a program of systematic savings. At the same time, there are many thousands of current savers who will be financially able to save more than they do now -- and who will do so with the proper encouragement.

As all of us know, the task of tapping this enormous potential for saving through the Payroll Savings Plan -- and thus lessening the inflationary potential within the economy as well as helping both the sound management of the public debt and the establishment of habits of thrift among our citizens -- has been made particularly difficult by the sharp disparity that has recently developed between rates of return on Savings Bonds and on private savings accounts.

In this connection, I am privileged to read you a letter I have just received from the President:

Dear Mr. Secretary:

Over the years, one of the strongest links between this Government and its citizenry has been

the United States Savings Bonds program. Born in the critical days before our entry into the Second World War, this program has been, for the Government, a vital source of noninflationary financing for needed Government programs. For the public, it has provided a matchless means for accumulating savings with absolute safety, and with an attractive rate of return.

A successful Savings Bonds program is of particular urgency at this time -- facing as we do a firm commitment to the defense of freedom in Viet Nam and a strongly rising economy at home. We must not, and will not, at this juncture, permit our strength to be sapped by inflation.

Today, above all, is a time for all Americans to rededicate themselves to the spirit that animated the Minutemen of Concord -- who serve as the symbol of the Savings Bonds program. For today, as at the founding of our nation, it is freedom which is at stake. Not all of us are called upon to fight in the jungles of Vietnam -- but while our men are there in the frontlines of a distant land, none of us can remain aloof on the sidelines. We must all do our share -- in every way we can -- to support our men in Vietnam. One sure way is open to all Americans through the Savings Bonds program.

On several occasions during the postwar period it has been necessary to improve the rate of return on Savings Bonds in view of the higher rates available to many savers in various private savings accounts. The last change was made in 1959. To have failed to make those adjustments would have been a disservice both to the Government and to the public at large -- risking inflationary dangers, complicating the task of managing our Government finances, and depriving millions of small savers of a reasonable rate of return on their funds entrusted to the Government.

We are again at a point where rates available on a variety of alternative forms of savings have moved above the rate now paid on U.S. Savings Bonds. At the same time, we are at a point where maximum savings are vital to our national welfare -- indeed,

to our national future. Another increase in
rate on those bonds is now timely.

In order to sustain and enlarge the vital role of the Savings Bonds program, I therefore direct you to set in motion the necessary machinery for raising the interest rate on these bonds as of the earliest feasible date. Please submit to me as soon as possible your specific recommendations.

As in past rate changes, I would like you to make appropriate rate adjustments on outstanding savings bonds as well, so that no current bond-holder need cash in his current holdings in order to gain the advantage of the attractive new rate, and no prospective buyer need feel that he should delay his purchase to await the higher rate.

Sincerely,

Lyndon B. Johnson

I hope we will be able to announce something soon to give added incentive to your efforts -- which, as I cannot stress too often, are doubly crucial in this year 1966.

I know, however, that there are few more encouraging incentives -- to those of us at Treasury and, I am sure, to all of you who will be working with him -- than to know that the compaign in New York enjoys the able and dedicated direction of James F. Oates, Jr., who is responsible for this meeting today.

I have every confidence that you Mr. Oates, and George Champion -- directing the New York Metropolitan area campaign -- and John Lockton, as Chariman of the State Committee -- will again exercise your considerable abilities and influence towards another total E and H bond sales figure for New York of more than half-a-billion dollars.

I know, too, Mr. Oates, how happy you must be to have as members of your team three "old pros" at Payroll Savings like Hal Geneen, Frank Milliken and Elmer Engstrom -- all former Charimen of our Industrial Payroll Committee -- each of whom enabled our program to take giant strides forward.

I know you all realize how much your efforts can help to bolster the nation's financial position and steady its economic footing at a time when stability and strength are more imperative than ever.

I know that you will do all you can -- and that is a great deal indeed.

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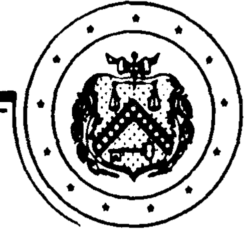
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

January 18, 1966

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 4-3/4% Treasury Certificates of Indebtedness of Series A-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		$ 499,219,000	$ 79,629,000
New York		2,979,214,000	446,461,000
Philadelphia		445,589,000	71,882,000
Cleveland		804,331,000	129,248,000
Richmond		536,823,000	87,122,000
Atlanta		570,278,000	97,123,000
Chicago		1,442,241,000	248,602,000
St. Louis		403,549,000	76,369,000
Minneapolis		247,578,000	51,482,000
Kansas City		345,687,000	76,790,000
Dallas		558,398,000	92,775,000
San Francisco		1,299,401,000	194,000,000
Treasury		1,083,000	228,000
	Totals	$10,133,391,000	$1,651,711,000

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5 of the Internal Revenue Code of 1954 the amount of discount at which bills issued here under are sold is not considered to accrue until such bills are sold, redeemed or other wise 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 amou 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, prescrib the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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

Banking institutions generally may submit tenders for account of customers pro-
vided 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 bi
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 Reser
Banks and Branches, following which public anouncement 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 Treasu
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 reserva-
tions, 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 Federa
Reserve Bank on January 27, 1966, in cash or other immediately available fu
or in a like face amount of Treasury bills maturing January 27, 1966. Cash
and exchange tenders will receive equal treatment. Cash adjustments will be made f
differences between the par value of maturing bills accepted in exchange and the is
price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, January 19, 1966

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 $ 2,300,000,000 , or thereabouts, for cash and in exchange for Treasury bills maturing January 27, 1966 , in the amount of $ 2,200,705,000 , as follows:

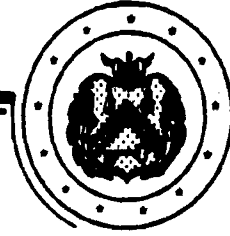
91 -day bills (to maturity date) to be issued January 27, 1966 , in the amount of $ 1,300,000,000 , or thereabouts, representing an additional amount of bills dated October 28, 1965 , and to mature April 28, 1966 , originally issued in the amount of $ 1,001,010,000 , the additional and original bills to be freely interchangeable.

182 -day bills, for $ 1,000,000,000 , or thereabouts, to be dated January 27, 1966 , and to mature July 28, 1966 .

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, January 24, 1966 . Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 19, 1966

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 300,000,000, or thereabouts, for cash and in exchange for asury bills maturing January 27, 1966, in the amount of 200,705,000, as follows:

91-day bills (to maturity date) to be issued January 27, 1966, the amount of $ 1,300,000,000, or thereabouts, representing an itional amount of bills dated October 28, 1965, and to ire April 28, 1966, originally issued in the amount of 001,010,000, the additional and original bills to be freely erchangeable.

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Banking institutions generally may submit tenders for account of omers provided the names of the customers are set forth in such ers. Others than banking institutions will not be permitted to it tenders except for their own account. Tenders will be received out deposit from incorporated banks and trust companies and from onsible and recognized dealers in investment securities. Tenders others must be accompanied by payment of 2 percent of the face it of Treasury bills applied for, unless the tenders are npanied by an express guaranty of payment by an incorporated bank rust 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 Bank on January 27, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 27, 1966. 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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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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Immediately after the closing hour, tenders will be opened at the Federal Re- erve Banks and Branches, following which public announcement will be made by the reasury Department of the amount and price range of accepted bids. Those submit- ing 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 (XX) or less without tated price from any one bidder will be accepted in full at the average price (in ree decimals) of accepted competitive bids. Settlement for accepted tenders in ccordance with the bids must be made or completed at the Federal Reserve Bank on nuary 31, 1966 (XX), in cash or other immediately available funds or in a like ce amount of Treasury bills maturing January 31, 1966 (XX). Cash and exchange nders will receive equal treatment. Cash adjustments will be made for differ- ces between the par value of maturing bills accepted in exchange and the issue ice of the new bills.

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, January 19, 1966

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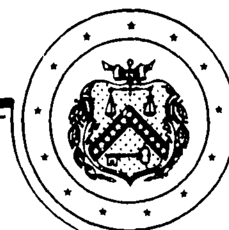
TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 365-day Treasury bills, for cash and in exchange for Treasury bills maturing January 31, 1966, in the amount of $1,000,387,000, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated January 31, 1966, and will mature January 31, 1967, 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, January 25, 1966. 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 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.

January 19, 1966

'OR IMMEDIATE RELEASE

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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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There would be increased tax payments of $200 million in calendar year 19..
This would be $300 million if January 1967 is included.

I have submitted to the Committee a detailed explanation of these recommendations along with detailed exhibits. I understand that these are available to the Committee.

CONCLUSION

In summary, the President's tax program is directed toward the immediate situation. It is designed to bring us to a balanced cash budget in fiscal year 1967 -- indeed, a small surplus -- despite the necessary increase in expenditure because of our operations in Southeast Asia. At the levels of employment and business activity that are expected in 1966 and 1967, achieving this balance wi be very important.

The particular measures advanced are designed to have minimum long-range impact on tax burdens and to achieve desirable structural changes. They deal almost entirely with matters on which there has been study in the past. I am hopeful that they may be acted upon promptly.

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The estimated tax system would have the double purpose of making tax payment more convenient for individuals and providing some equality between people with nonwage income and people with wage income who are subject to withholding. Since employee social security taxes are withheld, it is appropria to include the self-employment tax in the estimated tax base.

In a tentative General Accounting Office report recently submitted for Treasury Department comments, the GAO recommended an identical proposal. We understand that the GAO will issue a formal report shortly which includes this recommendation.

Under our proposal, self-employed individuals would make a quarterly paymen of one-quarter of their self-employment tax liability on June 15 of this year. There would also be quarterly payments on September 15 and on January 15, 1967. For 1967, an April 15 payment would be required as well as payments by June 15 a September 15, 1967, and January 15, 1968.

This proposal would increase collections in fiscal year 1966 by $100 millio and by $100 million in fiscal year 1967. This, of course, is only an estimate o what the response would be. As we gained experience, we would develop a proced for crediting part of the quarterly declaration payments of self-employed individuals to the Social Security Trust Fund as these payments come into the Treasury. For this reason, in the long run, the provision would affect only ca budget receipts and not administrative budget receipts.

The increasing tightness on credit markets also indicates that the accelerated payment proposal would have some effect on business expenditures.

This proposal on corporate tax payments would increase budget receipts in fiscal year 1966 by $1.0 billion and, in fiscal year 1967, by $3.2 billion. It would increase total tax payments in calendar year 1966 by $1.1 billion (because of fiscal year corporations).

SELF-EMPLOYMENT TAXES

To round out the President's program to make tax-paying more current, we are proposing that social security taxes of the self-employed be paid on an estimated basis.

The present law requires a self-employed individual to estimate and make quarterly installment payments of his income tax if the estimated tax is at least $40. There is no logic in applying this requirement only to income taxes and not to self-employment taxes.

Under present law, however, for a self-employed individual, the requirement for current payment bears only on the part of his end-of-the-year tax liabilities represented by the income tax. In some cases this income tax liability may be only a small part of the final total liability for income and self-employment taxes; in others it may be a large part. Since the taxes relate to the same type of income, it would be appropriate if the entire liability were subject to the same requirement of estimated payment.

still find that the total of those payments was exactly the same as it would have been under present law.

It should be noted that the total increase in all payments for a corporation in 1967 would not be as great as the difference between the percentage of current payment in 1966 and that in 1967, since final payments due in 1967 would be reduced by the increase in current payment in 1966 over the present schedule.

We do not believe that this speeding up of corporate tax payments would lead to any appreciable slowdown in the rate of accumulation of real capital goods. It is not our purpose to slow down the rate of growth.

At a time when we are close to full employment and full utilization of capacity, however, a sizeable Federal budget deficit could have inflationary implications. For this reason, it is desirable to absorb some of the additional liquidity in the economic system that could otherwise be used in bidding up the prices of capital goods. We believe that our proposed speed-up of corporate tax payments would remove some of this excess business purchasing power without really cutting down the ability to purchase the quantity of capital goods that will be available.

In recent years, corporations have reduced their holdings of liquid assets relative to current liabilities. An accelerated payments requirement would make some corporations re-examine their expenditure plans. They might give second thoughts to some marginal investment projects, deferment of which might ease pressures on costs and prices today and, incidentally, leave more investment possibilities for the future when the expenditures could be more easily absorbed

In 1963, these corporations paid during the current year only two quarterly payments, those in September and December. The Revenue Act of 1964 provided that corporations would start to make quarterly payments on a current basis in April and June. These April and June payments were scheduled to increase gradually up to the 25 percent level in 1970. At present they must be 9 percent each in 1966 and 14 percent each in 1967. We propose that these figures be raised to 12 percent in 1966 and to the permanent level of 25 percent in 1967.

In 1963, corporations paid only 50 percent of their estimated tax liabilit (over $100,000) in the year in which it was earned. When the Congress decided, in the Revenue Act of 1964, to require that this go up to 100 percent, it was clear that over some period of time corporations would have to make an addition payment of 50 percent of one year's estimated tax liability to get current. In view of the economic conditions existing then, the 1964 Act spread this additio payment over seven years: 2 points in 1964; 6 points in 1965; 10 points each in 1966, 1967, and 1968; and 6 points each in 1969 and 1970.

Under the proposal now being made, the additional payments would be 16 poi in 1966 and 26 in 1967 instead of 10 points each year. These payments, with th 2 points from 1964 and the 6 from 1965, add up to 50 points.

The only change is in the timing of the additional payments. If, in 1971, a corporation reviewed its financial experience, it would find that its payments of taxes in that year were exactly the same as they would have been if the present proposal for speeding up the acceleration had not been adopted. If it added up all of its corporate tax payments from 1964 through 1970, it would

number of employers who use various types of payroll machinery. We believe that employers would find that the new withholding provisions do not add any significant problems to their present payroll accounting. One could expect this result simply from the fact that 18 States have already introduced graduated withholding systems, some with more than the six rates we are proposing.

The proposed revision of withholding would, on a full annual basis, increase by $1,240 million per year the revenue raised by withholding. In calendar year 1966, the additional payments would be $840 million. Budget receipts would increase in fiscal year 1966 by $95 million and, in fiscal year 1967, by $400 million. The effective date, coming as it does late in the fiscal year, accounts for the low budget effect in fiscal year 1966. Lower final tax payments and slightly higher refunds in the spring of 1967, reflecting higher 1966 withholding, would influence the net budget effect in fiscal year 1967.

CORPORATE ACCELERATION

The proposal for acceleration of corporate tax payments would leave the basic tax liability unchanged. Under present law, by 1970 corporations will pay, with respect to their estimated tax in excess of $100,000, quarterly payments of 25 percent in April, June, September, and December.

Taking all income brackets together, the new withholding system would, by its nature, reduce the amount of underwithholding and make very little net change in overwithholding. The most striking feature of the withholding proposal is this: it would increase from about 12 million to about 29 million the number of taxpayers whose withholding comes within $10 of their final tax liability.

The substance of all of these figures is that, at the present time, we have a withholding system which, in a technical sense, does not come as close as we would like to the actual tax liability of the ordinary wage earner -- one without outside income. While we know of no feasible system, consistent with our tax laws, that would achieve perfection, we believe that the existing withholding system can be restructured so that it more closely approaches the actual tax liabilities. Our proposals are designed to accomplish this.

We believe that the proposed graduated system is a far better one than the present system -- and that it represents an appropriate balancing of the desires of most taxpayers, which are to have withholding come reasonably close to liabilities and to keep overwithholding within reasonable bounds.

During our consideration of the techniques of graduated withholding with representatives of the Joint Committee Staff, we have talked to a

The first three rates in our proposal are required to reduce underwithholding for taxpayers with incomes of $10,000 or less.

For the taxpayers with adjusted gross incomes over $10,000, further graduation is needed to accomplish adequate reduction of underwithholding. Consequently, the three additional rates of 20 percent, 25 percent, and 30 percent would be applied. Itemized deductions are assumed to be 10 percent, this being the case for about one-third of the taxpayers above $10,000. This structure would largely eliminate underwithholding above $10,000.

But the high incidence of large itemized deductions would appear to result in overwithholding under this structure. Sixty percent of this is due to the effect of the first three rates; the balance would result from the last three rates. However, high itemized deductions do not necessarily always produce overwithholding, since most taxpayers above $10,000 also have nonsalary income. Consequently, use of a level of itemized deductions higher than 10 percent in the construction of the graduated system would have resulted in inadequate withholding both for taxpayers having only salary income with itemized deductions below the assumed higher level and for taxpayers with nonsalary income.

The additional rates in our system above 17 percent would reduce underwithholding above $10,000 without a disproportionate increase in overwithholding. The total changes above $10,000 would result in about $3 of reduction in underwithholding for each $2 increase in overwithholding.

H. Overwithholding

On the subject of overwithholding, on incomes below $5,000, one-third of the amounts withheld under present law are in excess of final tax liabilities. A part of this can be eliminated by building the minimum standard deduction into the withholding system. By doing this, our plan would reduce overwithholding at this level by $500 million. The remainder of overwithholding, which cannot readily be handled without gravely complicating the system, is largely the result of itemized deductions and intermittent employment.

In the income group between $5,000 and $10,000, there would be a considerable reduction in the number of people overwithheld but only a slight reduction in the aggregate dollar amount of overwithholding. A sizeable number of people in this income range would have small reductions in overwithholding, due to building in the minimum standard deduction. A small number now having overwithholding but not benefiting from incorporation of the minimum standard deduction would find their overwithholding slightly increased. In this area also, the overwithholding is mainly due to itemized deductions and intermittent employment.

In the income group above $10,000, when declarations are not filed, there is an increase in overwithholding under our proposal equal to about 4.5 percent of the total amount now withheld, or about 4 percent of the final tax liability on those returns. Since the increase in overwithholding in this group seems to be a large figure, $570 million, I want to describe in detail why this result is not unreasonable, considered in terms of the entire program.

i. Underwithholding

On the subject of underwithholding, the chief cause of underwithholding today is the fact that present law uses a single rate. Underwithholding occurs in many cases beginning with wages of $5,000 for a single person and $7,500 for a married couple.

Our proposal would not change the dollar amount of underwithholding for taxpayers who have adjusted gross incomes below $5,000 and who do not file quarterly declarations. The dollar amount involved at that level is $233 million. But on returns with income between $5,000 and $10,000, underwithholding would be reduced from $798 million to $548 million. On returns with income of $10,000 and above, underwithholding would be reduced from $1,369 million to $429 million.

Such a reduction in underwithholding means a reduction in the total amount many taxpayers would owe on April 15. The advantage to them of having paid more of their tax bill over the year as they earned their income and having less to pay on April 15 is obvious.

The underwithholding remaining under our proposal, especially below $10,000, will arise principally where the taxpayer has nonwage income. Above $10,000, it will arise for that reason and because the tax rates themselves go above our proposed maximum 30 percent withholding rate. In striking a balance, we concluded that it would be undesirable to raise withholding rates further because of the disproportionate additional overwithholding this would create.

Many wage and salary earners, for example, voluntarily understate the number of exemptions to which they are entitled for withholding purposes in order to have their withholding more closely approximate their tax liability or even to result in overwithholding. I am not suggesting that overwithholding should not be kept to the minimum feasible level. We have, in designing the graduated proposal, endeavored to reduce both underwithholding and overwithholding to the extent possible.

The difficulty here is that a withholding system, as a practical matter, can only take into account some broad characteristics of a particular taxpayer, such as his gross income from wages and his marital status and number of exemptions and some overall estimate as to his personal deductions. Any taxpayer might have income from other sources that is not subject to withholding or actual deductions that are more or less than the overall estimate used in the system, or the taxpayer may not be employed continuously during the year. All of these factors -- and others -- affect the amount of his tax liability.

Beyond recognizing that a withholding system cannot be perfect, we need to look separately at the problems of underwithholding and overwithholding. By these terms, I am referring to the difference between the amount withheld and the final tax liability.

With regard to automobile and telephone taxes, however, only a change in rate is involved -- not a restoration of the entire tax.

Also, limiting the changes to these two taxes -- which yield substantial revenues -- would avoid the necessity of reintroducing the compliance and administrative difficulties involved in much smaller additional taxes on a lot of various items.

In fiscal year 1967, the increase in revenues would be $420 million from the automobile tax and $790 million from the telephone tax, a total of $1.2 billion.

If the legislation is enacted by March 15, 1966, revenue in fiscal year 1966 would be increased by $60 million, all of which would come from the automobile tax. There are, as you realize, lags between the time the taxes are collected and when they are paid into the Treasury.

The increase in cash payments by consumers reflecting these tax changes in calendar year 1966 would be $200 million from the automobile tax and $570 million from the telephone tax.

GRADUATED WITHHOLDING

With regard to the graduated withholding proposal, I think it is important to note at the beginning that a very substantial proportion of our citizens regard a pay-as-you-go tax system as a convenience, not as a penalty. Further, I believe, since the withholding system cannot be perfect, most taxpayers prefer some overwithholding with a refund on April 15 to underwithholding, which means a final tax bill due in April.

We suggest that the restored telephone tax rate be effective on the first day of the first month beginning more than 15 days after the legislation is enacted. Selecting the first of the month is appropriate because the lower 3 percent rate went into effect on the first of January. This timing would result in all customers being subject to the lower rate for the same number of months, since the telephone companies use a regular monthly billing rotation. The 15 days leeway is desirable to facilitate the computation of the bills on the new basis.

We recommend that the automobile tax be restored to 7 percent on the day after enactment. In order to assure an orderly transition to the new tax rate, a floor stock tax should be applied to automobiles which dealers and distributors have on hand at the start of the day that the 7 percent rate goes into effect. This is recommended for the same reasons that floor stock refunds are included in each of the scheduled reductions of the automobile tax.

In approaching this question of what short-term adjustments should be made in excise taxes, the question might come up whether some of the taxes which were repealed as of last June or of last December should be restored. When one looks at this question, several things stand out. In the first place, when a tax is repealed, a lot of accounting and reporting procedures associated with payment of the tax simply disappear. Restoring a tax that has been completely repealed imposes a substantial administrative burden since these reporting and accounting systems have to be reconstituted.

EXCISE TAXES

Among the specific proposals of the tax program, I would like to first consider excise taxes. We are proposing the rescheduling of the reduction of the two large excise taxes, those on private automobiles and on telephone service. Under the 1965 legislation, by 1969 the telephone tax would have been eliminated and the automobile tax reduced to 1 percent. Our rescheduling is consistent with the principle, recognized by the Congress in 1965, that reductions in these two large taxes must be scheduled in the light of budgetary constraints. With the changed situation, these constraints are more compelling than was the case when the legislation was enacted last year.

Specifically, the reduction that took place on January 1 of this year should be restored as quickly as possible. This would involve restoring the 7 percent manufacturers excise tax on automobiles, which was reduced to 6 percent on January 1 and the 10 percent tax on local and long distance telephone and teletypewriter service, which fell to 3 percent the same date. The reductions that took place on January 1, 1966, would, under our recommendation, be rescheduled to take place on January 1, 1968. The further reductions in these two taxes that were scheduled successively for 1967, 1968, and 1969 would be rescheduled for 1969, 1970, and 1971.

unchanged, the rise in tax receipts generated by our growing economy would have enabled us in fiscal year 1967 to have a balanced budget or surplus in a reasonably full employment economy, with some room for increases in Federal civilian expenditures or further tax reduction.

But these plans must be postponed to make room for expenditures needed for our national defense.

These expenditures come at a time when the economy is at the threshold of the 4 percent interim unemployment goal relentlessly pursued for five years. Unemployment will be reduced even further during the coming year. There is no shortage of demand; there are some signs of pressure of demand on supply as the gap between the two has narrowed in recent years.

In these circumstances, our fiscal aim is to avoid additional stimulus, diminish the inflationary potential in the economy, and raise Federal revenues to a point where we can project a near balanced budget in a near full employment economy.

The appropriate fiscal balance can be achieved in the present circumstance by the tax program proposed by the Administration. It changes income tax payment schedules without changing rates or anyone's final tax liability, and it postpones certain scheduled excise tax reductions to specified dates.

The proposals included in the program merely extend policies already incorporated in our tax laws. Together with the increased revenues from reasonably anticipated economic expansion, these changes will finance the increased special costs of Viet Nam in fiscal year 1967, without substantially increasing our debt and diminish the deficit in fiscal year 1966.

THE FISCAL SITUATION

These tax changes are recommended in the interest of sound economic and budget policy in the fiscal years 1966 and 1967. Although the budget details will not be made public for another few days, we have the essential fiscal facts before us. The main fact is that increased special costs associated with Viet Nam will add $4.7 billion in fiscal year 1966 expenditures and $10.5 billion in fiscal year 1967 over the amount originally estimated in the estimate last January for fiscal year 1966.

The tax changes proposed to offset these costs will:

-- increase fiscal year 1966 revenues by $1.2 billion and fiscal year 1967 revenues by $4.8 billion,

-- lower the administrative budget deficit to $1.8 billion in fiscal year 1967, the lowest in seven years,

-- produce in that year a $500 million surplus in the cash budget, the first in seven years,

-- minimize the stimulus to the economy from necessary increases in defense spending in the period of high economic activity,

-- help to maintain economic stability and reduce the risks of inflation.

Taxation is one of the best, and most flexible, instruments of economic policy available to the Federal Government. The Revenue Act of 1964, which has done so much to restore vitality to our economic system, demonstrated the effectiveness of tax policy in raising total demand and total output. Had our defense commitments remained

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
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ON THE ADMINISTRATION'S TAX PROGRAM
10 A.M., EST, WEDNESDAY, JANUARY 19, 1966

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to present the President's tax program recommended in his State of the Union Message on which the earliest possible action would be desirable.

I would like first to express my special appreciation for the promptness with which the Committee has begun the process of legislative consideration of this program. As the President made clear in his State of the Union Message, this program is designed to fit the immediate budget and economic situation, and it will be of most benefit if it is enacted promptly.

We recognize, of course, the importance of careful legislative consideration. For that reason, I set forth the details of the program in my letter of January 13 to Chairman Mills. These proposals deal in considerable part with subjects that have been examined before, and prompt legislative action should thereby be facilitated.

Briefly, the program involves (a) rescheduling the 1966-69 reductions in the automobile and telephone excise taxes to the period 1968 to 1971 and (b) the adoption of certain collection procedures which will put income and self-employment tax payments closer to a pay-as-you-go system, thereby increasing current revenues without changing income tax rates and without changing anyone's final tax liabilities.

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TREASURY DEPARTMENT
Washington

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With regard to the graduated withholding proposal, I think it is important to note at the beginning that a very substantial proportion of our citizens regard a pay-as-you-go tax system as a convenience, not as a penalty. Further, I believe, since the withholding system cannot be perfect, most taxpayers prefer some overwithholding with a refund on April 15 to underwithholding, which means a final tax bill due in April.

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Our proposal would not change the dollar amount of underwithholding for taxpayers who have adjusted gross incomes below $5,000 and who do not file quarterly declarations. The dollar amount involved at that level is $233 million. But on returns with income between $5,000 and $10,000, underwithholding would be reduced from $798 million to $548 million. On returns with income of $10,000 and above, underwithholding would be reduced from $1,369 million to $429 million.

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The additional rates in our system above 17 percent would reduce underwithholding above $10,000 without a disproportionate increase in overwithholding. The total changes above $10,000 would result in about $3 of reduction in underwithholding for each $2 increase in overwithholding.

Taking all income brackets together, the new withholding system would, by its nature, reduce the amount of underwithholding and make very little net change in overwithholding. The most striking feature of the withholding proposal is this: it would increase from about 12 million to about 29 million the number of taxpayers whose withholding comes within $10 of their final tax liability.

The substance of all of these figures is that, at the present time, we have a withholding system which, in a technical sense, does not come as close as we would like to the actual tax liability of the ordinary wage earner -- one without outside income. While we know of no feasible system, consistent with our tax laws, that would achieve perfection, we believe that the existing withholding system can be restructured so that it more closely approaches the actual tax liabilities. Our proposals are designed to accomplish this.

We believe that the proposed graduated system is a far better one than the present system -- and that it represents an appropriate balancing of the desires of most taxpayers, which are to have withholding come reasonably close to liabilities and to keep overwithholding within reasonable bounds.

During our consideration of the techniques of graduated withholding with representatives of the Joint Committee Staff, we have talked to a

number of employers who use various types of payroll machinery. We believe that employers would find that the new withholding provisions do not add any significant problems to their present payroll accounting. One could expect this result simply from the fact that 18 States have already introduced graduated withholding systems, some with more than the six rates we are proposing.

The proposed revision of withholding would, on a full annual basis, increase by $1,240 million per year the revenue raised by withholding. In calendar year 1966, the additional payments would be $840 million. Budget receipts would increase in fiscal year 1966 by $95 million and, in fiscal year 1967, by $400 million. The effective date, coming as it does late in the fiscal year, accounts for the low budget effect in fiscal year 1966. Lower final tax payments and slightly higher refunds in the spring of 1967, reflecting higher 1966 withholding, would influence the net budget effect in fiscal year 1967.

CORPORATE ACCELERATION

The proposal for acceleration of corporate tax payments would leave the basic tax liability unchanged. Under present law, by 1970 corporations will pay, with respect to their estimated tax in excess of $100,000, quarterly payments of 25 percent in April, June, September, and December.

In 1963, these corporations paid during the current year only two quarterly payments, those in September and December. The Revenue Act of 1964 provided that corporations would start to make quarterly payments on a current basis in April and June. These April and June payments were scheduled to increase gradually up to the 25 percent level in 1970. At present they must be 9 percent each in 1966 and 14 percent each in 1967. We propose that these figures be raised to 12 percent in 1966 and to the permanent level of 25 percent in 1967.

In 1963, corporations paid only 50 percent of their estimated tax liability (over $100,000) in the year in which it was earned. When the Congress decided, in the Revenue Act of 1964, to require that this go up to 100 percent, it was clear that over some period of time corporations would have to make an additional payment of 50 percent of one year's estimated tax liability to get current. In view of the economic conditions existing then, the 1964 Act spread this additional payment over seven years: 2 points in 1964; 6 points in 1965; 10 points each in 1966, 1967, and 1968; and 6 points each in 1969 and 1970.

Under the proposal now being made, the additional payments would be 16 points in 1966 and 26 in 1967 instead of 10 points each year. These payments, with the 2 points from 1964 and the 6 from 1965, add up to 50 points.

The only change is in the timing of the additional payments. If, in 1971, a corporation reviewed its financial experience, it would find that its payments of taxes in that year were exactly the same as they would have been if the present proposal for speeding up the acceleration had not been adopted. If it added up all of its corporate tax payments from 1964 through 1970, it would

still find that the total of those payments was exactly the same as it would have been under present law.

It should be noted that the total increase in all payments for a corporation in 1967 would not be as great as the difference between the percentage of current payment in 1966 and that in 1967, since final payments due in 1967 would be reduced by the increase in current payment in 1966 over the present schedule.

We do not believe that this speeding up of corporate tax payments would lead to any appreciable slowdown in the rate of accumulation of real capital goods. It is not our purpose to slow down the rate of growth.

At a time when we are close to full employment and full utilization of capacity, however, a sizeable Federal budget deficit could have inflationary implications. For this reason, it is desirable to absorb some of the additional liquidity in the economic system that could otherwise be used in bidding up the prices of capital goods. We believe that our proposed speed-up of corporate tax payments would remove some of this excess business purchasing power without really cutting down the ability to purchase the quantity of capital goods that will be available.

In recent years, corporations have reduced their holdings of liquid assets relative to current liabilities. An accelerated payments requirement would make some corporations re-examine their expenditure plans. They might give second thoughts to some marginal investment projects, deferment of which might ease pressures on costs and prices today and, incidentally, leave more investment possibilities for the future when the expenditures could be more easily absorbed.

The increasing tightness on credit markets also indicates that the accelerated payment proposal would have some effect on business expenditures.

This proposal on corporate tax payments would increase budget receipts in fiscal year 1966 by $1.0 billion and, in fiscal year 1967, by $3.2 billion. It would increase total tax payments in calendar year 1966 by $1.1 billion (because of fiscal year corporations).

SELF-EMPLOYMENT TAXES

To round out the President's program to make tax-paying more current, we are proposing that social security taxes of the self-employed be paid on an estimated basis.

The present law requires a self-employed individual to estimate and make quarterly installment payments of his income tax if the estimated tax is at least $40. There is no logic in applying this requirement only to income taxes and not to self-employment taxes.

Under present law, however, for a self-employed individual, the requirement for current payment bears only on the part of his end-of-the year tax liabilities represented by the income tax. In some cases this income tax liability may be only a small part of the final total liability for income and self-employment taxes; in others it may be a large part. Since the taxes relate to the same type of income, it would be appropriate if the entire liability were subject to the same requirement of estimated payment.

The estimated tax system would have the double purpose of making tax payment more convenient for individuals and providing some equality between people with nonwage income and people with wage income who are subject to withholding. Since employee social security taxes are withheld, it is appropriate to include the self-employment tax in the estimated tax base.

In a tentative General Accounting Office report recently submitted for Treasury Department comments, the GAO recommended an identical proposal. We understand that the GAO will issue a formal report shortly which includes this recommendation.

Under our proposal, self-employed individuals would make a quarterly payment of one-quarter of their self-employment tax liability on June 15 of this year. There would also be quarterly payments on September 15 and on January 15, 1967. For 1967, an April 15 payment would be required as well as payments by June 15 and September 15, 1967, and January 15, 1968.

This proposal would increase collections in fiscal year 1966 by $100 million and by $100 million in fiscal year 1967. This, of course, is only an estimate of what the response would be. As we gained experience, we would develop a procedure for crediting part of the quarterly declaration payments of self-employed individuals to the Social Security Trust Fund as these payments come into the Treasury. For this reason, in the long run, the provision would affect only cash budget receipts and not administrative budget receipts.

There would be increased tax payments of $200 million in calendar year 1966. This would be $300 million if January 1967 is included.

I have submitted to the Committee a detailed explanation of these recommendations along with detailed exhibits. I understand that these are available to the Committee.

CONCLUSION

In summary, the President's tax program is directed toward the immediate situation. It is designed to bring us to a balanced cash budget in fiscal year 1967 -- indeed, a small surplus -- despite the necessary increase in expenditures because of our operations in Southeast Asia. At the levels of employment and business activity that are expected in 1966 and 1967, achieving this balance will be very important.

The particular measures advanced are designed to have minimum long-range impact on tax burdens and to achieve desirable structural changes. They deal almost entirely with matters on which there has been study in the past. I am hopeful that they may be acted upon promptly.

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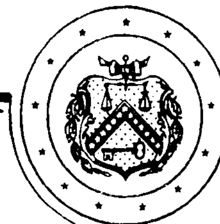
TREASURY DEPARTMENT



WASHINGTON, D.C.

January 20, 1966

FOR IMMEDIATE RELEASE

REGIONAL COMMISSIONERS AND DISTRICT DIRECTORS
APPOINTED FOR NEW ORLEANS REGION

Assistant Secretary of the Treasury True Davis today announced the appointment of Major General Raymond F. Hufft, New Orleans Collector of Customs, as Regional Commissioner of Customs for the New Orleans Region V.

Assistant Secretary Davis also announced the appointments of Hal M. Seale, Houston, Texas, as Assistant Regional Commissioner for Operations; Claude E. Blancq, New Orleans, as Assistant Regional Commissioner for Administration; and Milton L. LeBlanc, New Orleans, as Director of the New Orleans Customs District.

The appointments, made in accordance with Civil Service regulations, will become effective February 1 with the activation of the new region. Regionalization and the 1965 Presidential reorganization of the Bureau of Customs, which placed the 176-year-old Customs Service wholly on a career basis, are major parts of a general modernization of the Bureau.

The Reorganization Plan, which went into effect on May 25, 1965, provided for the elimination of 53 Customs positions throughout the U. S. previously filled by Presidential appointment.

New Orleans will be the fourth region to be activated in accordance with a year-long timetable. The Miami Customs Region is also scheduled for activation on February 1. The San Francisco and Los Angeles Customs Regions were established on November 1, 1965, and January 1, 1966, respectively. The remaining five regions are scheduled as follows: Chicago -- March; Baltimore -- April; Houston and Boston -- May; and New York -- June.

Offices of the New Orleans regional headquarters will be located on the 13th floor of the Federal Office Building at 701 Loyola Avenue, New Orleans, Louisiana.

United States Commissioner of Customs Lester D. Johnson
ads the Bureau of Customs, which is part of the Treasury
partment. His offices are at Washington, D. C.

iographies attached)

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BIOGRAPHICAL SKETCH OF MAJOR GENERAL RAYMOND F. HUFFT

RAYMOND F. HUFFT, Regional Commissioner of Customs-designate for the New Orleans Customs Region V, was born in New Orleans on August 4, 1914. He attended Spencer Business College and the U. S. Army Service and General Staff Schools.

General Hufft had a distinguished military career, rising from private to major general. He entered on active duty in 1941 in a paratroop division of the U. S. Army Infantry. He was seriously wounded in combat in the European Theater of Operations in April, 1945, and was separated from active duty in October, 1946.

The general was the first officer of the Seventh Army to cross the Rhine River. He crossed the Rhine with three men on March 25, 1945, before the crossing of the main body of troops. For this action he was awarded the Distinguished Service Cross.

His other decorations include the Silver Star with two oak leaf clusters, the Bronze Star with three oak leaf clusters, the Purple Heart with two oak leaf clusters, and the French Croix de Guerre with palm.

General Hufft was vice president and general manager of radio station WNOE in New Orleans before his entry into government service. He was appointed Director of Selective Service in the State of Louisiana in 1956, and he also served as the State's Director of Civil Defense.

In August, 1962, General Hufft was appointed Collector of Customs in New Orleans, in which capacity he has been responsible for the administrative supervision of approximately 175 employees. He is an officer in the American Legion, the New Orleans Athletic Club, the Chamber of Commerce, and other civic and fraternal orders.

General and Mrs. Hufft have four children. They reside at 787 Amethyst Street, New Orleans, Louisiana.

oOo

BIOGRAPHICAL SKETCH OF HAL M. SEALE

HAL M. SEALE, Assistant Regional Commissioner-designate
perations) for the New Orleans Customs Region, was born in
w Orleans on March 15, 1910. He attended Louisiana State University,
ceiving his B.S. degree in mechanical engineering.

Mr. Seale entered the U.S. Customs Service in New Orleans in 1935.
served as a sampler and later as a Customs examiner until 1935,
en he became an appraiser in Norfolk, Virginia. In 1962 he was
pointed appraiser in Houston with supervisory responsibility for
praisal activities in the Galveston and Port Arthur collection
stricts as well as Houston.

Mr. and Mrs. Seale reside at 8119 Dillon Street, Houston, Texas.

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BIOGRAPHICAL SKETCH OF CLAUDE E. BLANCQ, JR.

CLAUDE E. BLANCQ, JR., Assistant Regional Commissioner-designate
dministration) for the New Orleans Customs Region, was born in
w Orleans in 1909 and attended Tulane University, where he majored
accounting.

Mr. Blancq began his career as a clerk with a customhouse broker
New Orleans in 1925. Five years later he joined the U. S. Corps of
gineers as an accounting clerk. In 1931 he went to the office of the
llector of Customs in New Orleans, serving in the positions of
izure clerk and time clerk; deputy collector in charge, Division of
neys and Accounts; Customs liquidator; and administrative officer.

In 1949 he was named supervisory customs entry and liquidating
ficer. In this capacity he has served as acting assistant collector,
puty collector, and chief of the entry and liquidating division.

During the periods 1943-1946 and 1950-1952 he was on duty with
U.S. Army.

Mr. and Mrs. Blancq reside at 32 Flamingo St., New Orleans,
isiana.

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BIOGRAPHICAL SKETCH OF DISTRICT DIRECTOR

MILTON L. LeBLANC, District Director-designate of the New Orleans Customs District, was born at Houma, Louisiana, in 1898. He attended St. Stanislaus College, Bay St. Louis, Mississippi, and took business courses at St. Paul's College and Soule' College in New Orleans, where he graduated in accounting.

Mr. LeBlanc has been with the Customs Service since 1920, when he entered as a clerk and cashier. In 1932 he was named Assistant Collector of Customs in New Orleans, a position which he has held to the present.

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Table S-1

Weekly Withholding and Annual Overwithholding and Underwithholding
Under Present 14 Percent Withholding and Under Graduated Withholding

Weekly wage 1/	Annual wage income (no other income)	Weekly withholding 2/		Change in weekly withholding	Annual tax liability 3/	Overwithholding (+) or underwithholding (-)	
		Present 14 percent	Graduated withholding			Present 14 percent	Graduated withholding
			Single individual (one exemption)				
$ 19	$ 1,000	$ .87	$ .24	$- .63	$ 14	$+ 31	$- 2
38	2,000	3.56	3.09	- 2.28	161	+ 24	--
58	3,000	6.26	6.36	+ .10	329	- 3	+ 2
96	5,000	11.64	12.90	+ 1.26	671	- 66	--
144	7,500	18.37	22.44	+ 4.07	1,168	- 213	- 1
192	10,000	25.10	32.55	+ 7.45	1,742	- 437	- 49
240	12,500	31.83	45.31	+13.48	2,398	- 743	- 42
288	15,000	38.56	59.74	+21.18	3,154	-1,149	- 48
385	20,000	52.02	88.58	+36.56	4,918	-2,213	- 312
481	25,000	65.48	117.42	+51.94	6,982	-3,577	- 876
577	30,000	78.95	146.27	+67.32	9,242	-5,137	-1,636
			Married couple, two children (four exemptions)				
58	$ 3,000	$ .80	0	$- .80	0	$+ 42	--
96	5,000	6.18	$ 5.53	- .65	$ 290	+ 31	$- 2
144	7,500	12.91	12.85	- .06	686	- 15	- 18
192	10,000	19.64	21.02	+ 8.56	1,114	- 93	- 21
240	12,500	26.37	29.72	+ 3.35	1,567	- 196	- 22
288	15,000	33.10	39.33	+ 6.23	2,062	- 341	- 17
385	20,000	46.56	58.56	+12.00	3,160	- 739	- 115
481	25,000	60.02	82.32	+22.30	4,412	-1,291	- 131
577	30,000	73.49	111.16	+37.67	5,876	-2,055	- 96

Office of the Secretary of the Treasury
Office of Tax Analysis

January 14, 1966

1/ To the nearest dollar.
2/ Present 14 percent withholding and graduated withholding are computed by the percentage method. The present 14 percent withholding amounts may differ slightly from the amounts in the withholding tables. Assumes all exemptions claimed for withholding.
3/ Assumes deductions equal to 10 percent of income or the minimum standard deduction, whichever is larger.

Example of How the Introduction of the Minimum Standard Deduction in the Proposed Graduated Withholding System Reduces Withholding

(Single person - one exemption)

Computation of tax liability - present law		Computation of withheld tax (annual basis)			
		Present law		Proposed graduated withholding	
Wage income only	$1,000	Wage income only	$1,000	Wage income only	$1,000
Less exemption	600	Less withholding exemption 2/	667	Less withholding exemption 3/	700
Less minimum standard deduction 1/	300	Wages subject to withholding at 14% flat rate	333	Wages (after exemption)	300
Taxable income	100	Withheld tax	47	Less first $200 of wages (after exemption) 4/	200
Tax liability	$ 14	Overwithholding	$ 33	Wages subject to withholding at graduated rates	$ 100
				Withheld tax	14
				Overwithholding	0
				Underwithholding	0

Office of the Secretary of the Treasury
Office of Tax Analysis

January ~~14~~, 1966

1/ $200 for each taxpayer and $100 for each exemption claimed including the taxpayer himself.
2/ Tax Code value of each personal withholding exemption claimed by the employee.
3/ Proposed legal value of each withholding personal exemption claimed by the employee.
4/ First $200 of wages (after exemption) under proposed law would not be subject to withholding.

the tax system in the 1964 Revenue Act but was not carried over into the 14 percent withholding rate. As a result, many low-income taxpayers [have been] overwithheld. Incorporation of the minimum standard deduction would alleviate the problem substantially. The table gives an example of how this would work in the first withholding bracket.

The tables are attached.

Draft 1/20/66

FOR IMMEDIATE RELEASE

EFFECT OF GRADUATED INCOME TAX
WITHHOLDING PROPOSAL

The Treasury today released two tables supplementing the information on the effect of the President's proposal for graduated income tax withholding rates which was submitted to the House Ways and Means Committee last week.

The first table shows the effect of the proposal on weekly wages and pay checks for annual incomes from $1,000 to $30,000 for single persons and married couples with two children who have deductions of 10 percent or who use the minimum standard deduction. The material submitted to the Committee included thi information on an annual basis.

The second table illustrates the proposed incorporation of the minimum standard deduction into withholding for low-incom taxpayers. The minimum standard deduction was introduced into

TREASURY DEPARTMENT

WASHINGTON, D.C.

January 21, 1966

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The second table illustrates the proposed incorporation of the minimum standard deduction into withholding for low-income taxpayers. The minimum standard deduction was introduced into the tax system in the 1964 Revenue Act but was not carried over into the 14 percent withholding rate. As a result, many low-income taxpayers now are overwithheld. Incorporation of the minimum standard deduction would alleviate the problem substantially. The table gives an example of how this would work in the first withholding bracket.

The tables are attached.

F-348

Weekly Withholding and Annual Overwithholding and Underwithholding
Under Present 14 Percent Withholding and Under Graduated Withholding

Weekly wage 1/	Annual wage income (no other income)	Weekly withholding 2/		Change in weekly withholding	Annual tax liability 3/	Overwithholding (+) or underwithholding (-)	
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Office of the Secretary of the Treasury
Office of Tax Analysis

January 1966

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Office of the Secretary of the Treasury
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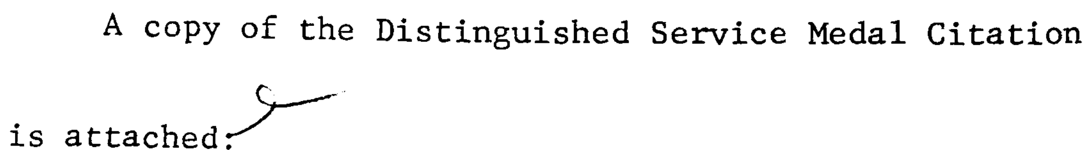
Commissioned an Ensign on May 15, 1929, after graduating from the Coast Guard Academy, Admiral Rowland advanced steadily in rank as he fulfilled a series of assignments that touched upon every facet of Coast Guard's diverse operations. He attained his present rank and command of the U. S. Coast Guard on April 23, 1962.

A copy of the Distinguished Service Medal Citation is attached.



impose both mental and physical discipline on themselves, for they know that in time of conflict, or war, or national emergency, their response must be equal to their responsibilities.

"The responses that Admiral Roland and the Coast Guard have made during the past few years to crises affecting the welfare and lives of human beings and the security of our country have been impressive. The exceptionally effective manner in which the Coast Guard responded to requests for assistance in South Viet Nam and in directing operations in the Straits of Florida to protect Cuban refugees has been a matter of

January 21, 1966

~~FOR RELEASE P.M. NEWSPAPERS~~ Immediate Release
FRIDAY, JANUARY 21, 1966

ADMIRAL EDWIN JOHN ROLAND RECEIVES
THE DISTINGUISHED SERVICE MEDAL

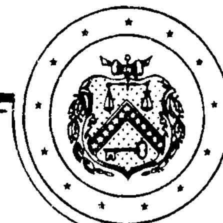
Treasury Secretary Henry H. Fowler, acting on behalf of President Johnson, today presented the Distinguished Service Medal to Admiral Edwin John Roland, Commandant of the United States Coast Guard.

The Distinguished Service Medal is the nation's highest award for meritorious achievement and service to a member of the Armed Forces.

The Secretary said in part:

"In time of peace we too frequently take for granted the Armed Forces of our country. Yet during periods of peace, officers and men must

TREASURY DEPARTMENT



WASHINGTON, D.C.
January 21, 1966

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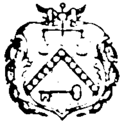
F-349



THE SECRETARY OF THE TREASURY
WASHINGTON

The President of the United States takes pleasure in presenting the DISTINGUISHED SERVICE MEDAL to

ADMIRAL EDWIN JOHN ROLAND
UNITED STATES COAST GUARD

for service as set forth in the following

CITATION:

"For exceptionally meritorious service to the Government of the United States in a position of great responsibility as Commandant of the Coast Guard from June 1962 to the present. By his inspired leadership, Admiral ROLAND has been eminently successful in carrying out an extremely difficult and exacting assignment. Notable gains made by the Coast Guard under his direction are reflected in every phase of the Service. By his enlightened approach to management, he has made the Coast Guard a pioneer in management by objective rather than reaction and has increased its capabilities as an Armed Force and a humanitarian agency. In the summer of 1965, Admiral ROLAND responded swiftly to urgent requirements for small river and coastal craft to assist in checking the flow of supplies from North Vietnam to Viet Cong units in the south. Within weeks after the request was made, the vessels were on their way to the fighting fronts of southeast Asia. Later in the same year, in the Fall of 1965, the entire nation was impressed by the skill and sureness with which Admiral ROLAND guided his organization through the tense situation prevailing in the Straits of Florida. His handling of this sensitive situation has enhanced our country's stature throughout the world. As part of his forward-looking leadership, Admiral ROLAND has revitalized the Coast Guard's program of oceanographic research. Today the Coast Guard is one of the recognized leaders in this strategic area. To all of his dealings with the Government bureaus and with international agencies, Admiral ROLAND has brought outstanding tact and courtesy. His distinguished service and achievements reflect the highest credit upon himself and the United States Coast Guard."

For the President,

/S/ Henry H. Fowler

Henry H. Fowler

TREASURY DEPARTMENT
Washington

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE A MEETING ON BEHALF OF THE
UNITED STATES SAVINGS BONDS PROGRAM
WITH BUSINESS AND CIVIC LEADERS IN AUGUSTA, GEORGIA
MONDAY, JANUARY 24, 1966, AT 7:30 P.M., EST

We meet today on behalf of a program -- the United States Savings Bonds program -- which has long played a crucial role in helping, not only to insure the sound management of the nation's financial affairs, but also to assist millions of Americans in putting their own financial affairs upon a sound and secure basis.

Today, the success of this program is more urgent than ever. For, while the struggle in Vietnam is taking place thousands of miles from our shores, we are all -- all Americans -- profoundly engaged in that struggle, which affects so many facets of our lives in so many ways. In particular, that struggle has a crucial impact upon the nation's financial and economic affairs -- as we at home work to insure that our already burgeoning economy absorbs without inflation the expenditure of additional billions of dollars to support the military effort in Vietnam.

The times, therefore, demand responsible restraint in the conduct of the nation's fiscal and economic affairs -- both in the public and private sectors. It is of that need for fiscal and economic responsibility -- and the importance of the Savings Bonds program in meeting that need -- that I would like to speak to you today.

Let us, first, consider where we stand:

In little more than a month, our economy will enter its sixth consecutive year of expansion -- thus marking another milestone in the economic advance that, for length, strength and stability, already stands without rival in in the entire history of our nation.

That expansion has been broadly based, and its benefits have been broadly shared. Between 1960 and 1965, this expansion has brought us:

-- a 34 percent rise in our total national output;

-- a 32 percent rise in consumer spending;

-- a 45 percent rise in business investment in plant and equipment;

-- a 32 percent rise in manufacturing production;

-- a 32 percent rise in personal income;

-- a 67 percent rise in corporate profits after taxes;

-- an 8 percent rise in employment and a reduction in the unemployment rate from 6.9 percent in early 1961 to 4.1 percent last month -- the lowest figure since May of 1957.

We can gather some idea of how tremendous this accomplishment has been when we consider that the increase alone in our national output since the expansion began -- an increase of over $190 billion between the first quarter of 1961 and the fourth quarter of 1965 -- surpasses the total annual output of any other nation in the Free World. Measured in constant dollars, our economy has grown at an average rate of about 5-1/2 percent a year during this expansion -- more than double the rate of the preceding years following the end of the Korean War and comparing quite favorably with the rate of growth in Western Europe, which last year averaged around 3-1/2 percent.

This region and this state have shared fully in the abundant benefits of this expansion.

Between 1961 and 1964, for example, in the Sixth Federal Reserve District -- which embraces the states of Tennessee, Georgia, Alabama, Louisiana, Florida and Mississippi:

-- The total number of nonfarm workers has grown by 8.3 percent, compared with 5.2 percent for the nation as a whole;

520

-- Average weekly earnings of production workers in manufacturing have grown by 12.7 percent, compared with 5.2 percent for the nation as a whole;

-- Total personal income has grown by 23 percent, compared with 18 percent for the nation as a whole;

-- Per capita personal income has grown by 16 percent, compared with 13 percent for the nation as a whole.

Never, therefore, has this nation begun a new year better prepared to meet the challenges that lie before it.

Those challenges arise from the fact that, today, in Southeast Asia, we take up arms to help others in their struggle for freedom -- and at home we labor to build for all Americans a society worthy to be called great.

In his State of the Union Address -- less than two weeks ago -- President Johnson told the nation that we can, and must, meet both the challenge in Vietnam and the challenge at home. At the same time, he stressed, the war in Vietnam means that, at home, "we cannot do all we should, or all we would like to do" -- although we must, and will, continue to do all we can.

Because of Vietnam, therefore, we must proceed at a slower speed and on a smaller scale toward meeting our mounting needs at home -- but proceed we can and proceed we must.

We can do so -- without overstraining either our economy or our budget -- because our economic policies and programs over the past five years have met with such signal success.

We can do so because our economy has flourished under a fiscal program designed to encourage strong and stable growth in the private sector through a combination of massive reductions in Federal tax rates and suitable restraints upon the growth of Federal expenditures.

The tax measures we have adopted over the past five years will lighten this year's tax bill for America's wage earners and investors by a total of some $20 billion. In response to these measures, the economy has surged steadily ahead -- with

rising incomes and profits, rising sales and jobs, rising investment and productivity. And these, in turn, have meant rising revenues for our Federal, state and local governments.

We estimate that, under present law, administrative budget receipts for fiscal 1966 would be about $21 billion greater than five years ago -- more than double the increases in the previous half decade when there were no significant tax reductions.

And at the same time that we have been reducing Federal taxes -- to incrase growth in the private sector -- we have been restraining the growth of Federal expenditures.

President Johnson's unrelenting insistence that every dollar, in his words, be "spent with the thrift and with the common sense which recognizes how hard the taxpayer worked in order to earn it" has resulted in what amounts to a whole new policy of expenditure control.

Through the tenacious pursuit of that policy, President Johnson has accomplished these remarkable results:

1. He has cut the original estimated expenditure level of $98.8 billion for fiscal 1964 by $1.1 billion to an actual $97.7 billion.

2. He has cut the original estimated expenditure level of $97.9 billion for fiscal 1965 -- ending last June 30 -- by $1.4 billion to an actual $96.5 billion.

3. The expenditure target for fiscal 1966 was fixed last January at $99.7 billion. But accelerated military activity in Vietnam required extra expenditures of some $4.7 billion. In addition, uncontrollable or legislated expenditures required another unavoidable increase amounting to a net figure of some $2 billion. These expenditures included $740 million of military and civilian pay increases voted by Congress in excess of Presidential recommendations, an additional $500 million increase in veterans pensions, a $500 million increase in interest charges on the debt and two further increases of $500 million each as a result of payments required by law under the space and

agricultural programs. All of these increases more than wiped out economies realized since the original budget estimate for fiscal 1966.

What all this adds up to is the striking fact that, had it not been for these unavoidable increases as a result of Vietnam and these other uncontrollable increases I have cited, the President in nearly three years in office would have held expenditures in the administrative budget to a total increase of less than $1 billion over the amount estimated for the fiscal year in which he assumed office. We can gain some idea of what a remarkable achievement this is when you compare it with the average increase of $3 billion per year over the previous ten years.

Yet to talk about expenditure control solely in terms of expenditure totals is to tell only half the story -- for we receive the greatest benefits from the President's insistent emphasis on cost reduction and program evaluation in the urgent new programs it enables us to afford through savings on those of lesser urgency and through greater productivity in existing programs.

And joined with rising Federal revenues from rising economic activity, this program of rigorous expenditure control has allowed us to meet urgent national needs while at the same time reducing the Federal deficit.

The record is clear: the 1964 budget submitted three years ago forecast a deficit of $11.9 billion premised, in part, on major tax reduction. This figure was reduced to an actual fiscal 1964 deficit of $8.2 billion.

Last year's budget contained an estimated deficit for fiscal 1965 of $6.3 billion. This was trimmed down to $3.4 billion.

The budget submitted last January projected a $5.3 billion deficit for fiscal 1966. As of June 30, this estimate had been cut to $4.2 billion. Had it not been for the additional defense needs resulting from Vietnam, the higher revenues flowing from our vigorous economic expansion would have cut even further that estimated deficit for the current fiscal year.

Had it not, in fact, been for the increases projected for Vietnam expenditures in fiscal 1966 and fiscal 1967 since the 1966 budget was originally submitted last January, we could have used the fiscal dividends furnished by this continued expansion to balance the budget in fiscal 1967 and still have had room for some increases in civilian expenditures or for additional tax reduction.

As a result of all these policies which, under President Johnson's leadership, have proven so productive, we now have the economic strength and the fiscal resources -- and the firm confidence these accomplishments more than justify -- to carry on the fight for freedom in South Vietnam without abandoning our efforts to build a Great Society at home. This was the real significance of the President's announcement -- in his State of the Union Message -- that the enactment of all his recommendations will entail a deficit in the administrative budget for fiscal 1967 of only $1.8 billion -- the smallest in seven years -- and will give us a surplus of $500 million in the cash budget.

And this accomplishment is made all the more extraordinary by the fact that fiscal 1967 expenditures include an increase in the special costs of Vietnam of $10.4 billion over the fiscal 1965 level -- a $5.8 billion increase in fiscal 1967 on top of an increase of $4.6 billion in fiscal 1966.

But the new budget represents more than a reflection -- however bright -- of past accomplishments in economic policy. Above all, it represents a full recognition of, and an effective response to, the paramount present need for fiscal responsibility if -- at a time of mounting military expenditures -- we are to maintain strong and stable growth in an economy where the gap between demand and efficient production and supply has markedly narrowed.

Thus, the increased revenues we expect to receive as our economy continues to grow -- and our gross national product rises in calendar 1966 to a projected level of slightly over $720 billion from the $675.5 billion level of calendar 1965 -- will be employed to meet the increased requirements of the Vietnam struggle.

At the same time, because of significant economics in less urgent areas of the budget, all expenditures other than the special costs of Vietnam will rise during the coming fiscal year

by only a projected $600 million -- even though some sectors of the budget, particularly in the essential fields of education, health and the war on poverty, will be substantially increased.

Yet even the application to Vietnam and other essential programs of the fiscal dividends from economic growth and from economies in government operations other than those in Vietnam would still leave a sizeable deficit at a time when the economic and financial situation calls for avoiding additional stimulus to demand.

As a result, the President has proposed a tax program that will increase federal revenues in the administrative budget for fiscal 1966 by $1.2 billion and in fiscal 1967 by an additional $3.6 billion, for a total in fiscal 1967 of $4.8 billion -- enough to bring the administrative deficit down to a tolerable $1.8 billion and produce a cash surplus of $500 million.

In brief, this program would:

-- Modify income tax collection procedures, without -- let me emphasize -- increasing income tax rates or changing anyone's final income tax liabilities;

-- And temporarily postpone the scheduled reductions in auto and telephone excise taxes.

More specifically the program includes:

1. A speed-up in the acceleration of corporate tax payments -- which would simply telescope the acceleration timetable established by the Revenue Act of 1964 and move the completion date up from 1970 to 1967;

2. A delay in the 1966 and later scheduled reductions of automobile and telephone excise taxes -- postponing for two years the staged reduction of these taxes and restoring them in the interim to the levels in effect at the end of 1965;

3. Replacement of the present 14 percent flat rate for income tax withholding on wages and salaries by a graduated, six-rate scale, so that wages withheld for income tax purposes would more closely approximate actual tax liabilities at the end of the taxable year;

4. Quarterly payment of Social Security taxes by self-employed taxpayers, to relieve them of the present obligation of making such payment in one lump sum after the end of the taxable year (which goes into the Trust Fund and does not affect the administrative budget).

The economic and financial effect of these measures, over the near term, would be to diminish the inflationary potential in the economy and raise federal revenues to a point where we can project a near balanced budget in a near full employment economy.

These measures, we believe, should furnish some restraining influence against any potential excessive economic exuberance without harming the continued healthy growth of our economy -- and we must, in our zeal to avoid the onslaught of inflation, take care that in trying to prevent the disease we do not imperil the patient. At the same time, we all recognize that the most present danger before us -- whose avoidance will require our most wary and watchful vigilance -- is the danger of economic excess, not economic deficiency.

Today, therefore, in clear contrast to the situation at any time over the past five years, the economic realities call for increased restraint on the part of us all -- for continued cooperation between both the public and private sectors in adapting their plans and programs to current economic circumstances.

In particular, let me stress the fact that, while the Government can do a great deal to create a climate to encourage non-inflationary growth, it is upon the shoulders of our businesses and our unions that the responsibility squarely rests for pursuing non-inflationary price and wage policies. And today -- when we fight a brutal war in Vietnam -- it is imperative that wage and price increases remain within the guideposts set by the President's Council of Economic Advisers -- or we run the grave risk of squandering the gains for which

we have all worked so hard and so long and of undermining the economic strength which must support, not only the struggle in Vietnam, but our efforts elsewhere in the world and here at home.

In the days and months ahead, therefore, all of us -- in government and in the private sector -- must bear an extra burden of responsibility in a truly national effort to keep a sure and steady economic footing while we continue to move ahead. And there is a special sense in which you here today can help in that effort -- for now more than ever it is essential that we finance our debt without inflation, and now more than ever it is essential that we do all we can to encourage greater savings throughout our economy.

Through the United States Savings Bonds program -- on whose behalf we meet today -- we accomplish both these ends at once.

The first principle of debt management is, of course, to keep the debt from growing to an unmanageable size -- and nowhere, as I have already pointed out, is our success in doing that better illustrated than in the budgets President Johnson has presented and carried out, and most particularly in the budget for fiscal 1967, which he has just sent to the Congress today.

As a result of this record of expenditure control, Treasury demands on our capital markets have not been -- and will not be -- as great as many have expected. And, in the future, as in the past, we will continue -- consistent with minimum cost and other debt management objectives -- to place our debt in the most non-inflationary manner possible.

Our entire debt increase in calendar 1965 was financed outside the banking system -- despite the sharp step-up in spending for Vietnam. Indeed, commercial bank holdings of Treasury issues steadily declined by several billions of dollars during the last year.

The Savings Bonds program, as you know, is vital to the success of our debt management policy -- and in the months ahead it could prove one of our most valuable weapons in averting inflation.

The fact that E and H Bonds outstanding now account for some 23 percent -- or $49 billion -- of the entire publicly held Federal debt is an abundant indication both of the importance of Savings Bonds to Federal debt management and

of the tremendous job done by the corps of volunteers -- whose dedication and abilities are not better exemplified than they are here today -- who have advanced the Savings Bonds program.

Each of you here today, by your leadership in the civic and economic affairs of your community, your city and your state, is making a substantial contribution to the stability and strength of our national economy. You can add immeasurably to that contribution by doing all you can in every way you can to help promote the purchase of United States Savings Bonds.

The challenge is clear: this year more people will be at work than ever before -- and at higher wages and salaries. And while no one can say how many new jobs we will have this year, let no one underestimate the job-creating capacity of our economy -- which has generated some 2.7 million new non-farm jobs over the past year, and some 8 million new non-farm jobs over the past five years.

This year, therefore, many millions of Americans will be reaching a threshold of financial well-being that will enable them, for the first time, to take part in a program of systematic savings. At the same time, there are many millions of current savers who will be financially able to save more than they do now -- and who will do so with the proper encouragement.

Recently, as you know, there has developed a significant disparity between rates of return on Savings Bonds and on private savings accounts. To have allowed that disparity to continue would not only have seriously diminished the prospects for sustained success in the Savings Bonds program -- thus harming our efforts to ward off inflation and soundly manage the nation's fiscal affairs -- but would also have been a grave breach of faith with those millions of Americans who, through the purchase of Savings Bonds, have entrusted their savings to the Government.

As a result, President Johnson last week directed me to raise the interest rate on Savings Bonds at the earliest possible date. At the same time, the President asked that I also make the appropriate adjustments in the rates on outstanding savings bonds -- so that no one who now holds bonds need cash in his holdings to gain the benefit of the new rate, and so that no one who now wants to buy savings bonds need postpone his purchase to await the higher rate.

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We are now working feverishly to carry out the President's directive as soon as possible -- and I hope that, in the very near future, we will be able to announce the new, higher rate on United States Savings Bonds.

In the meantime, there is no need to await the actual announcement of a new rate before launching an all-out effort in your communities and places of business to generate the largest possible investment in a strong and secure economy -- in a strong and secure America -- through the purchase of United States Savings Bonds.

I know you all realize how much your efforts can help to bolster the nation's financial position and steady its economic footing at a time when stability and strength are more imperative than ever.

I know that you will do all you can -- and that is a great deal indeed.

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TREASURY DEPARTMENT
Washington

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE A MEETING ON BEHALF OF THE
UNITED STATES SAVINGS BONDS PROGRAM
WITH BUSINESS AND CIVIC LEADERS IN NASHVILLE, TENNESSEE
MONDAY, JANUARY 24, 1966, AT 12:30 P.M., CST

We meet today on behalf of a program -- the United States Savings Bonds program -- which has long played a crucial role in helping, not only to insure the sound management of the nation's financial affairs, but also to assist millions of Americans in putting their own financial affairs upon a sound and secure basis.

Today, the success of this program is more urgent than ever. For, while the struggle in Vietnam is taking place thousands of miles from our shores, we are all -- all Americans -- profoundly engaged in that struggle, which affects so many facets of our lives in so many ways. In particular, that struggle has a crucial impact upon the nation's financial and economic affairs -- as we at home work to insure that our already burgeoning economy absorbs without inflation the expenditure of additional billions of dollars to support the military effort in Vietnam.

The times, therefore, demand responsible restraint in the conduct of the nation's fiscal and economic affairs -- both in the public and private sectors. It is of that need for fiscal and economic responsibility -- and the importance of the Savings Bonds program in meeting that need -- that I would like to speak to you today.

Let us, first, consider where we stand:

In little more than a month, our economy will enter its sixth consecutive year of expansion -- thus marking another milestone in the economic advance that, for length, strength and stability, already stands without rival in in the entire history of our nation.

That expansion has been broadly based, and its benefits have been broadly shared. Between 1960 and 1965, this expansion has brought us:

-- a 34 percent rise in our total national output;

-- a 32 percent rise in consumer spending;

-- a 45 percent rise in business investment in plant and equipment;

-- a 32 percent rise in manufacturing production;

-- a 32 percent rise in personal income;

-- a 67 percent rise in corporate profits after taxes;

-- an 8 percent rise in employment and a reduction in the unemployment rate from 6.9 percent in early 1961 to 4.1 percent last month -- the lowest figure since May of 1957.

We can gather some idea of how tremendous this accomplishment has been when we consider that the increase alone in our national output since the expansion began -- an increase of over $190 billion between the first quarter of 1961 and the fourth quarter of 1965 -- surpasses the total annual output of any other nation in the Free World. Measured in constant dollars, our economy has grown at an average rate of about 5-1/2 percent a year during this expansion -- more than double the rate of the preceding years following the end of the Korean War and comparing quite favorably with the rate of growth in Western Europe, which last year averaged around 3-1/2 percent.

This region and this state have shared fully in the abundant benefits of this expansion.

Between 1961 and 1964, for example, in the Sixth Federal Reserve District -- which embraces the states of Tennessee, Georgia, Alabama, Louisiana, Florida and Mississippi:

-- The total number of nonfarm workers has grown by 8.3 percent, compared with 5.2 percent for the nation as a whole;

-- Average weekly earnings of production workers in manufacturing have grown by 12.7 percent, compared with 5.2 percent for the nation as a whole;

-- Total personal income has grown by 23 percent, compared with 18 percent for the nation as a whole;

-- Per capita personal income has grown by 16 percent, compared with 13 percent for the nation as a whole.

Never, therefore, has this nation begun a new year better prepared to meet the challenges that lie before it.

Those challenges arise from the fact that, today, in Southeast Asia, we take up arms to help others in their struggle for freedom -- and at home we labor to build for all Americans a society worthy to be called great.

In his State of the Union Address -- less than two weeks ago -- President Johnson told the nation that we can, and must, meet both the challenge in Vietnam and the challenge at home. At the same time, he stressed, the war in Vietnam means that, at home, "we cannot do all we should, or all we would like to do" -- although we must, and will, continue to do all we can.

Because of Vietnam, therefore, we must proceed at a slower speed and on a smaller scale toward meeting our mounting needs at home -- but proceed we can and proceed we must.

We can do so -- without overstraining either our economy or our budget -- because our economic policies and programs over the past five years have met with such signal success.

We can do so because our economy has flourished under a fiscal program designed to encourage strong and stable growth in the private sector through a combination of massive reductions in Federal tax rates and suitable restraints upon the growth of Federal expenditures.

The tax measures we have adopted over the past five years will lighten this year's tax bill for America's wage earners and investors by a total of some $20 billion. In response to these measures, the economy has surged steadily ahead -- with

rising incomes and profits, rising sales and jobs, rising investment and productivity. And these, in turn, have meant rising revenues for our Federal, state and local governments.

We estimate that, under present law, administrative budget receipts for fiscal 1966 would be about $21 billion greater than five years ago -- more than double the increases in the previous half decade when there were no significant tax reductions.

And at the same time that we have been reducing Federal taxes -- to incrase growth in the private sector -- we have been restraining the growth of Federal expenditures.

President Johnson's unrelenting insistence that every dollar, in his words, be "spent with the thrift and with the common sense which recognizes how hard the taxpayer worked in order to earn it" has resulted in what amounts to a whole new policy of expenditure control.

Through the tenacious pursuit of that policy, President Johnson has accomplished these remarkable results:

1. He has cut the original estimated expenditure level of $98.8 billion for fiscal 1964 by $1.1 billion to an actual $97.7 billion.

2. He has cut the original estimated expenditure level of $97.9 billion for fiscal 1965 -- ending last June 30 -- by $1.4 billion to an actual $96.5 billion.

3. The expenditure target for fiscal 1966 was fixed last January at $99.7 billion. But accelerated military activity in Vietnam required extra expenditures of some $4.7 billion. In addition, uncontrollable or legislated expenditures required another unavoidable increase amounting to a net figure of some $2 billion. These expenditures included $740 million of military and civilian pay increases voted by Congress in excess of Presidential recommendations, an additional $500 million increase in veterans pensions, a $500 million increase in interest charges on the debt and two further increases of $500 million each as a result of payments required by law under the space and

agricultural programs. All of these increases more than wiped out economies realized since the original budget estimate for fiscal 1966.

What all this adds up to is the striking fact that, had it not been for these unavoidable increases as a result of Vietnam and these other uncontrollable increases I have cited, the President in nearly three years in office would have held expenditures in the administrative budget to a total increase of less than $1 billion over the amount estimated for the fiscal year in which he assumed office. We can gain some idea of what a remarkable achievement this is when you compare it with the average increase of $3 billion per year over the previous ten years.

Yet to talk about expenditure control solely in terms of expenditure totals is to tell only half the story -- for we receive the greatest benefits from the President's insistent emphasis on cost reduction and program evaluation in the urgent new programs it enables us to afford through savings on those of lesser urgency and through greater productivity in existing programs.

And joined with rising Federal revenues from rising economic activity, this program of rigorous expenditure control has allowed us to meet urgent national needs while at the same time reducing the Federal deficit.

The record is clear: the 1964 budget submitted three years ago forecast a deficit of $11.9 billion premised, in part, on major tax reduction. This figure was reduced to an actual fiscal 1964 deficit of $8.2 billion.

Last year's budget contained an estimated deficit for fiscal 1965 of $6.3 billion. This was trimmed down to $3.4 billion.

The budget submitted last January projected a $5.3 billion deficit for fiscal 1966. As of June 30, this estimate had been cut to $4.2 billion. Had it not been for the additional defense needs resulting from Vietnam, the higher revenues flowing from our vigorous economic expansion would have cut even further that estimated deficit for the current fiscal year.

Had it not, in fact, been for the increases projected for Vietnam expenditures in fiscal 1966 and fiscal 1967 since the 1966 budget was originally submitted last January, we could have used the fiscal dividends furnished by this continued expansion to balance the budget in fiscal 1967 and still have had room for some increases in civilian expenditures or for additional tax reduction.

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In brief, this program would:

-- Modify income tax collection procedures, without -- let me emphasize -- increasing income tax rates or changing anyone's final income tax liabilities;

-- And temporarily postpone the scheduled reductions in auto and telephone excise taxes.

More specifically the program includes:

1. A speed-up in the acceleration of corporate tax payments -- which would simply telescope the acceleration timetable established by the Revenue Act of 1964 and move the completion date up from 1970 to 1967;

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I know you all realize how much your efforts can help to bolster the nation's financial position and steady its economic footing at a time when stability and strength are more imperative than ever.

I know that you will do all you can -- and that is a great deal indeed.

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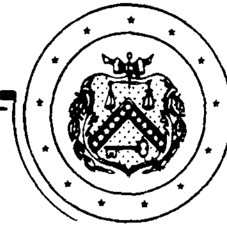
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, January 24, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated October 28, 1965, and e other series to be dated January 27, 1966, which were offered on January 19, were ened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing April 28, 1966		182-day Treasury bills maturing July 28, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.842	4.581%	97.626 a/	4.696%
Low	98.835	4.609%	97.623	4.702%
Average	98.838	4.596% 1/	97.624	4.699% 1/

a/ Excepting one tender of $100,000
14% of the amount of 91-day bills bid for at the low price was accepted
84% 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	$ 29,695,000	$ 19,395,000	$ 46,792,000	$ 16,842,000
New York	1,385,910,000	804,708,000	1,620,431,000	818,868,000
Philadelphia	28,902,000	16,902,000	12,961,000	4,066,000
Cleveland	35,068,000	35,068,000	43,862,000	19,867,000
Richmond	23,525,000	23,525,000	5,876,000	5,376,000
Atlanta	36,498,000	22,578,000	37,901,000	10,938,000
Chicago	293,862,000	180,848,000	275,694,000	59,737,000
St. Louis	56,205,000	45,205,000	34,409,000	14,409,000
Minneapolis	16,649,000	13,789,000	10,087,000	4,987,000
Kansas City	40,836,000	36,321,000	14,826,000	13,861,000
Dallas	29,019,000	20,159,000	14,418,000	9,218,000
San Francisco	107,070,000	81,950,000	187,373,000	21,835,000
TOTALS	$2,083,239,000	$1,300,448,000 b/	$2,304,630,000	$1,000,004,000 c/

Includes $254,653,000 noncompetitive tenders accepted at the average price of 98.838
Includes $120,088,000 noncompetitive tenders accepted at the average price of 97.624
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.71% for the 91-day bills, and 4.88% for the 182-day bills.

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and the Senate Finance Committee, insists on the most searching scrutiny of every tax proposal. There has been little or no change in the original thesis of the men who framed the Constitution that the power to tax is crucially important and must be carefully safeguarded.

All this is well and good, but within these safeguards we must continue to seek the most effective and appropriate use of our system of taxation.

That is the task which the President, the Administration, and the Congress have now taken up again.

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of this nation -- and this was done at a time when revenues totalled only a few billion dollars. We have learned a lot since those days, but I would be the first to admit that our knowledge is still far from complete. From my viewpoint in the Treasury, one of the most encouraging aspects of our nation today is the willingness of industry, labor and the financial community, as well as the Congress, to examine soberly the economic realities of the world in which we live and to seek the policies which ~~fit~~ best fit these realities.

I have always believed that to change the tax laws of the United States you must have support that runs from two-thirds to three-fourths of the country. A close majority is never sufficient. I do not object to this. I do not object to the fact that Congress, in the Ways and Means Committee

the President has made ~~this~~ ~~abundant~~ly clear: If the Viet Nam situation requires additional revenues, he will not hesitate to go to the Congress to ask for them.

We are at the beginning of the second phase of the debate. The issue now before the country is whether we have the economic sophistication to use fiscal policy as a moderating influence which will balance our cash budget in a full-employment economy. Hopefully, the Congress and the country will see the reasonableness of our arguments, for then we as a nation will have come to an awareness that budget policy and tax policy as well as monetary policy are essential and useful tools which can be used with flexibility and force in a free society.

In 1932 the Congress increased taxes by more than a billion dollars during the worst depression in the history

move to a "pay as you go" system for meeting their tax liabilities, and a system of graduated withholding to relate the tax payments of individuals more closely to their accruing tax liabilities.

The question is often asked: Why did we select a package of temporary postponements of excise tax reductions plus what are essentially "one-shot" measures in corporate speed-up and graduated withholding? Why did we not recommend a straight-out increase in taxes on individuals and corporations? The answer is related to the uncertainties of our involvement in Viet Nam, and the only answer that I can give you is that we simply do not know precisely what will be required or for how long. Therefore, it seemed only prudent to use the "one-shot" measures which were available. I should add that

The moderating influence that the President proposed was a package of revenue measures that will total $1.2 billion for the rest of fiscal 1966 and $4.8 billion for fiscal 1967. This package will bring the Administration's fiscal 1967 budget close to balance with a deficit of $1.8 billion. It will produce a small surplus of $500 million in our cash budget. Without these additional revenues the increased costs of Viet Nam would have triggered an administrative deficit of $6.6 billion. A deficit of this magnitude was clearly unthinkable and dangerous in our present nearly full-employment economy.

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$600 million in spite of the fact that some increases, such as for interest and payments, were clearly beyond his control. The added costs of Viet Nam amount to $4.7 billion in fiscal 1966 and an additional $5.8 billion in fiscal 1967 -- a total of $10.5 billion. These increases represent the hard decisions on what this country must spend to live up to its commitments in the world, including Viet Nam.

All these decisions, when combined with the probable course of the domestic economy, indicated an increase in economic activity which clearly threatened to strain the capacity of our plant, our labor and our savings. They clearly indicated that some moderating action was necessary to limit the risk of a serious inflationary threat.

(3) The pressure on our savings was equally apparent. In spite of the fact that the banking system was able to accommodate an enormous increase in business and personal loans this past year, amounting to almost $25 billion, still the demand for funds to build new plants and finance operations showed no signs of abating. Indeed, every sign indicated that last year's total would be equalled or surpassed.

It was against this background that the President had to make his decisions on the Budget. His decisions are spelled out in the Budget Message which was delivered yesterday. His decision was that in the non-defense areas of Government expenditures he would use the strongest restraint possible without damaging essential domestic programs. Excluding Viet Nam, Administration expenditures have risen by only

which President Johnson framed his budget decisions for the balance of fiscal year 1966 and for fiscal year 1967.

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This brings us to an historic turn in the evolution of the economic debate. We have demonstrated that tax policy is an extraordinarily powerful weapon for stimulating the expansion of an economy which is operating far below its potential. The question now at issue is whether tax policy is also an appropriate tool to use as a moderating force when the country's plants, supply of labor, and savings are all being utilized at capacity or near capacity and the threat of still greater demands lies ahead. This was the climate in

Other support may even have come from those who believed that our economic arguments were wrong: that we would end up with smaller -- not greater -- revenues; and that this would force the Government to retrench in many areas. When this broad support was combined with President Johnson's vigorous leadership and his severe restraints on the budget, the result was an economic decision that was unique for the United States -- a tax reduction designed to stimulate economic growth to such an extent that Government revenues would actually increase.

The statistical evidence is now available to support the truth of our arguments. I need not remind you that we are now in the 59th month of economic expansion -- by far the longest in the history of the United States with the single exception of the World War II period. What many fail to

the question of whether or not certain people and certain businesses were carrying their fair shares of the tax burden.

In 1963 the debate was resumed with greater intensity, because in that year we approached Congress and the country with the proposition that a tax structure could be _too_ high -- it could be so high as to be counterproductive. We argued that a reduction of rates for individuals and for corporations would release productive energies and actually would result in greater revenues for the Government. We finally passed this legislation in 1964 with unusually broad support. Part of our support came from those who were convinced that our economic arguments were correct -- that the country could really produce more if we left more income in the private stream rather than diverting it into the Federal revenues.

The great debate on this subject opened in May of 1961 when President Kennedy sent forward his first tax recommendations, which included among other proposals an investment credit designed to stimulate investment in the United States both for new capacity and for the replacement of obsolete capacity. In all candor I must admit that the great debate made little headway that first year. But in 1962, when the Treasury indicated that it "meant business" and liberalized our whole concept of depreciation, the debate began in earnest and resulted in the enactment of far-reaching tax legislation.

The discussions of 1961 and 1962 were centered primarily on the reform of our methods of treating investment, but the attention of the American people was also focused on the whole question of the equity of our tax system -- particularly on

I cannot honestly state that there is total agreement in the country today on the use of budgetary policy to insure full utilization of resources at all times and in all circumstances. But There certainly seems to be general agreement and understanding of the fact that a sizable budgetary deficit in boom times is dangerous and potentially inflationary.

Further, I believe that there has been a significant change in the attitude of the American people towards the concept of taxation. There seems to be rather general awareness today of the fact that our tax system is an enormously powerful tool which can generate a non-inflationary expansion of economic activities in times when our labor, our plants, and our savings are being under-utilized -- when our economy is clearly falling short of its potential output.

up-side by raising interest rates and tightening credit, it was clearly impossible for them to move against a recession by lowering rates. Cheap money would have encouraged an outflow of funds seeking more attractive rates overseas, and our balance of payments problems would have been increased.

If we were to counteract the recessionary tendencies that were still apparent early in 1961 and stimulate the rather sluggish growth rate of the Fifties, the nation obviously had to look for other tools. The only other tools available were budgetary policy and tax policy, and in these two areas we came squarely against the weight of public opinion. No consensus existed in the country on the use of budgetary policy or tax policy to make certain that our people, our plants, and our savings were utilized to the fullest.

responsibility, under the Employment Act of 1946, "...to promote maximum employment, production and purchasing power."

The particular issue of credit regulation, which had excited and often divided the country for 150 years, seemed to be settled, the only remaining question being the policies which the Federal Reserve Board followed in exercising its authority.

But when I came to the Treasury in 1961, it was apparent that events had imposed severe limitations on the powers of the Federal Reserve Board. A new and perplexing phenomenon confronted the nation in the form of a chronic and persistent balance of payments deficit which averaged more than $3½ billion a year for the years 1958, 1959, and 1960, and which in 1960 alone resulted in a gold loss amounting to $1.7 billion. While the Federal Reserve Board still had room to maneuver on the

By 1958, when I was elected to the Congress, the use of monetary policy as a tool of Federal power to try to smooth out the business cycle was rather generally accepted. The Federal Reserve Board had gradually mopped up the excess liquidity generated by World War II and during the decade of the Fifties was using its powers over credit in an attempt to moderate swings in the business cycle -- tightening up on credit in boom times, and making credit more easily available in times of recession.

While the Federal Reserve Board was often subject to vigorous criticism on the timing and direction of its moves, there was still general acceptance of the thesis that the Board had the power to regulate credit and should exercise this power to keep the economy on a fairly even basis. Moreover, as a part of the Federal Government, the Board had the

in influencing the nation's level of economic activity. No one can estimate ~~with certainty~~ the breadth or the depth of this recent consensus, but I can say with certainty that it is far more extensive than it was in 1958. A brief review of the development of our financial thinking in this nation illustrates this clearly.

Since the earliest days of the Republic the nation has debated the issue of whether or not the use of monetary authority (or the control of credit) was an appropriate tool of Federal power.

Our understanding of the issue was gradually sharpened in the nation as our financial experience developed through the First and Second Banks of the United States, the National Bank Act of 1863, the Federal Reserve Act of 1913, and the Banking Acts of 1933 and 1935.

DRAFT - 1/20/66

UNDER SECRETARY BARR'S DRAFT STATEMENT ~~FOR DELIVERY~~ TO THE ROTARY CLUB, INDIANAPOLIS, INDIANA, ON JANUARY 25, 1966.

release on delivery

Remarks by the Honorable Joseph W.Barr
Under Secretary of the Treasury
before
a Luncheon Meeting of the Rotary Club at the Indianapolis, Claypool Hotel, Indianiapolis, Indiana, Tuesday, January 25, 1966,
12 Noon, CST.

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Executive Branch of the G

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE A
LUNCHEON MEETING OF THE ROTARY CLUB OF INDIANAPOLIS,
AT THE CLAYPOOL HOTEL, INDIANAPOLIS, INDIANA
TUESDAY, JANUARY 25, 1966, 12:00 NOON, CST.

FEDERAL FINANCIAL POLICY

two years in the Congress and five years in the ;e Branch of the Government have been concentrated in ı of Federal finance, and this is the subject to which like to address myself today. This is a particularly ıate day for such a discussion because the President's lessage arrived in the Congress just 24 hours ago.

I look back over these past seven years, I am struck seems to be an extraordinary change in the attitude ıation towards Federal finance. Gradually over these ıere seems to have developed a growing awareness that ·ral budget and Federal taxes play an important role ıencing the nation's level of economic activity. No one .mate the breadth or the depth of this recent consensus, .n say with certainty that it is far more extensive was in 1958. A brief review of the development of our .l thinking in this nation illustrates this clearly.

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F-351

liquidity generated by World War II and during the decade of the Fifties was using its powers over credit in an attempt to moderate swings in the business cycle -- tightening up on credit in boom times, and making credit more easily available in times of recession.

While the Federal Reserve Board was often subject to vigorous criticism on the timing and direction of its moves, there was still general acceptance of the thesis that the Board had the power to regulate credit and should exercise this power to keep the economy on a fairly even basis. Moreover, as a part of the Federal Government, the Board had the responsibility, under the Employment Act of 1946, "... to promote maximum employment, production and purchasing power."

The particular issue of credit regulation, which had excited and often divided the country for 150 years, seemed to be settled, the only remaining question being the policies which the Federal Reserve Board followed in exercising its authority.

But when I came to the Treasury in 1961, it was apparent that events had imposed severe limitations on the powers of the Federal Reserve Board. A new and perplexing phenomenon confronted the nation in the form of a chronic and persistent balance of payments deficit which averaged more than $3-1/2 billion a year for the years 1958, 1959, and 1960, and which in 1960 alone resulted in a gold loss amounting to $1.7 billion. While the Federal Reserve Board still had room to maneuver on the up-side by raising interest rates and tightening credit, it was clearly undesirable for them to move against a recession by lowering rates to any major degree. Very cheap money would have encouraged an outflow of funds seeking more attractive rates overseas, and our balance of payments problems would have been increased.

If we were to counteract the recessionary tendencies that were still apparent early in 1961 and stimulate the rather sluggish growth rate of the Fifties, the nation obviously had to look for other tools. The only other tools available were budgetary policy and tax policy, and in these two areas we came squarely against the weight of public opinion. No consensus existed in the country on the use of budgetary policy or tax policy to make certain that our people, our plants, and our savings were utilized to the fullest.

I cannot honestly state that there is total agreement in the country today on the use of budgetary policy to insure full utilization of resources at all times and in all circumstances. But there certainly seems to be general agreement and understanding of the fact that a sizable budgetary deficit in boom times is dangerous and potentially inflationary.

Further, I believe that there has been a significant change in the attitude of the American people towards the concept of taxation. There seems to be rather general awareness today of the fact that our tax system is an enormously powerful tool which can generate a non-inflationary expansion of economic activities in times when our labor, our plants, and our savings are being under-utilized -- when our economy is clearly falling short of its potential output.

The great debate on this subject opened in May of 1961 when President Kennedy sent forward his first tax recommendations, which included among other proposals an investment credit designed to stimulate investment in the United States both for new capacity and for the replacement of obsolete capacity. In all candor I must admit that the great debate made little headway that first year. But in 1962, when the Treasury indicated that it "meant business" and liberalized our whole concept of depreciation, the debate began in earnest and resulted in the enactment of far-reaching tax legislation.

The discussions of 1961 and 1962 were centered primarily on the reform of our methods of treating investment, but the attention of the American people was also focused on the whole question of the equity of our tax system -- particularly on the question of whether or not certain people and certain businesses were carrying their fair shares of the tax burden.

In 1963 the debate was resumed with greater intensity, because in that year we approached Congress and the country with the proposition that a tax structure could be <u>too</u> high -- it could be so high as to be counterproductive. We argued that a reduction of rates for individuals and for corporations would release productive energies and actually would result in greater revenues for the Government. We finally passed this legislation in 1964 with unusually broad support. Part of our support came from those who were convinced that our economic arguments were correct -- that the country could really produce more if we left more income in the private

stream rather than diverting it into the Federal revenues. Other support may even have come from those who believed that our economic arguments were wrong: that we would end up with smaller -- not greater -- revenues; and that this would force the Government to retrench in many areas. When this broad support was combined with President Johnson's vigorous leadership and his severe restraints on the budget, the result was an economic decision that was unique for the United States -- a tax reduction designed to stimulate economic growth to such an extent that Government revenues would actually increase.

The statistical evidence is now available to support the truth of our arguments. I need not remind you that we are now in the 59th month of economic expansion -- by far the longest in the history of the United States with the single exception of the World War II period. What many fail to realize is that, although our tax cuts enacted into law during the past five years total about $20 billion for this year (and each year to follow), the revenues of the United States grew more than twice as fast during this five-year period as they did in the previous five years when there were no tax cuts.

This brings us to an historic turn in the evolution of the economic debate. We have demonstrated that tax policy is an extraordinarily powerful weapon for stimulating the expansion of an economy which is operating far below its potential. The question now at issue is whether tax policy is also an appropriate tool to use as a moderating force when the country's plants, supply of labor, and savings are all being utilized at capacity or near capacity and the threat of still greater demands lies ahead. This was the climate in which President Johnson framed his budget decisions for the balance of fiscal year 1966 and for fiscal year 1967.

The picture looked like this in December:

(1) Our manufacturing plant was operating at about 91 percent of capacity. While there is some disagreement over the precise level at which our plants can operate most efficiently, the comprehensive McGraw-Hill survey indicates that industry expects upward pressure on costs above the "preferred" rate of 92 percent of capacity.

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It was against this background that the President had to make his decisions on the Budget. His decisions are spelled out in the Budget Message which was delivered yesterday. His decision was that in the non-defense areas of Government expenditures, he would use the strongest restraint possible without damaging essential domestic programs. Excluding Viet Nam, Administration expenditures have risen by only $600 million in spite of the fact that some increases, such as for interest payments, were clearly beyond his control. The added costs of Viet Nam amount to $4.7 billion in fiscal 1966 and an additional $5.8 billion in fiscal 1967 -- a total of $10.5 billion. These increases represent the hard decisions on what this country must spend to live up to its commitments in the world, including Viet Nam.

All these decisions, when combined with the probable course of the domestic economy, indicated an increase in economic activity which threaten to strain the capacity of our plant, our labor and our savings. They indicated that some moderating action was necessary to limit the risk of an inflationary threat.

The modernizing influence that the President proposed was a package of revenue measures that will total $1.2 billion for the rest of fiscal 1966 and $4.8 billion for fiscal 1967. This package will bring the Administration's fiscal 1967 Administrative budget close to balance with a deficit of $1.8 billion. It will produce a small surplus of $500 million in our cash budget. Without these additional revenues the increased costs of Viet Nam would have triggered an administrative deficit of $6.6 billion. A deficit of this magnitude was clearly not appropriate in our present nearly full-employment economy.

As you know, the revenue measures involve a postponement for two years of the reduction in excise taxes on automobiles and telephones; a speed-up in the rate at which corporations move to a "pay as you go" system for meeting their tax liabilities, and a system of graduated withholding to relate the tax payments of individuals more closely to their accruing tax liabilities.

The question is often asked: Why did we select a package of temporary postponements of excise tax reductions plus what are essentially "one-shot" measures in corporate speed-up and graduated withholding? Why did we not recommend a straight-out increase in taxes on individuals and corporations? The answer is related to the uncertainties of our involvement in Viet Nam, and the only answer that I can give you is that we simply do not know precisely what will be required or for how long. Therefore, it seemed only prudent to use the "one-shot" measures which were available. I should add that the President has made his course very clear: If the Viet Nam situation requires additional revenues, he will not hesitate to go to the Congress to ask for them.

We are at the beginning of the second phase of the debate. The issue now before the country is whether we have the economic sophistication to use fiscal policy as a moderating influence which will balance our cash budget in a full-employment economy. Hopefully, the Congress and the country will see the reasonableness of our arguments, for then we as a nation will have come to an awareness that budget policy and tax policy as well as monetary policy are essential and useful tools which can be used with flexibility and force in a free society.

In 1932 the Congress increased taxes by more than a billion dollars during the worst depression in the history of this nation -- and this was done at a time when revenues totalled only a few billion dollars. We have learned a lot since those days, but I would be the first to admit that our knowledge is still far from complete. From my viewpoint in the Treasury, one of the most encouraging aspects of our nation today is the willingness of industry, labor and the financial community, as well as the Congress, to examine soberly the economic realities of the world in which we live and to seek the policies which best fit these realities.

I have always believed that to change the tax laws of the United States you must have support that runs from two-thirds to three-fourths of the country. A close majority is never sufficient. I do not object to this. I do not object to the fact that Congress, in the Ways and Means Committee and the Senate Finance Committee, insists on the most searching scrutiny of every tax proposal. There has been little or no change in the original thesis of the men who framed the Constitution that the power to tax is crucially important and must be carefully safeguarded.

All this is well and good, but within these safeguards we must continue to seek the most effective and appropriate use of our system of taxation.

That is the task which the President, the Administration and the Congress have now taken up again.

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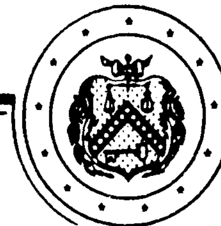
TREASURY DEPARTMENT



WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
uesday, January 25, 1966.

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced that the tenders for $1,000,000,000, or hereabouts, of 365-day Treasury bills to be dated January 31, 1966, and to mature anuary 31, 1967, which were offered on January 19, were opened at the Federal Reerve Banks today.

The details of this issue are as follows:

Total applied for - $1,916,612,000
Total accepted - $1,000,691,000 (includes $55,986,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting two tenders totaling $3,200,000)

High	- 95.250	Equivalent rate of discount approx. 4.685% per annum
Low	- 95.225	" " " " " 4.710% " "
Average	- 95.236	" " " " " 4.699% " " 1/

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

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 38,535,000	$ 27,465,000
New York	1,323,710,000	637,789,000
Philadelphia	11,087,000	1,087,000
Cleveland	50,341,000	27,491,000
Richmond	7,940,000	7,940,000
Atlanta	28,857,000	26,972,000
Chicago	320,298,000	190,198,000
St. Louis	23,212,000	22,212,000
Minneapolis	6,678,000	6,678,000
Kansas City	5,454,000	5,454,000
Dallas	17,948,000	11,878,000
San Francisco	82,552,000	35,527,000
TOTAL	$1,916,612,000	$1,000,691,000

/ This rate is on a bank discount basis. The equivalent coupon issue yield is 4.94%.

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sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt fro all taxation now or hereafter imposed on the principal or interest thereof by any Stat or any of the possessions of the United States, or by any local taxing authority. Fo purposes of taxation the amount of discount at which Treasury bills are originally so by the United States is considered to be interest. Under Sections 454 (b) and 1221 (of the Internal Revenue Code of 1954 the amount of discount at which bills issued her under are sold is not considered to accrue until such bills are sold, redeemed or oth wise 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 amo 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, prescri the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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printed forms and forwarded in the special envelopes which will be supplied by Fede 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 bankin institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companie 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 b applied for, unless the tenders are accompanied by an express guaranty of payment b an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Rese Banks and Branches, following which public anouncement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tender will be advised of the acceptance or rejection thereof. The Secretary of the Treas 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 Feder Reserve Bank on February 3, 1966 (XX), in cash or other immediately available fu or in a like face amount of Treasury bills maturing February 3, 1966 (XX). Cash and exchange tenders will receive equal treatment. Cash adjustments will be made f differences between the par value of maturing bills accepted in exchange and the is price of the new bills.

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, January 26, 1966
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(X) 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 $ 2,300,000,000 (X), or thereabouts, for cash and in exchange for Treasury bills maturing February 3, 1966 (X), in the amount of $2,202,185,000 (X), as follows:

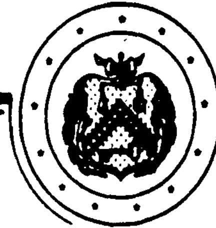
91 (X) -day bills (to maturity date) to be issued February 3, 1966 (X), in the amount of $1,300,000,000 (X), or thereabouts, representing an additional amount of bills dated November 4, 1965 (X), and to mature May 5, 1966 (X), originally issued in the amount of $ 1,000,131,000 (XX), the additional and original bills to be freely interchangeable.

182 (XX) -day bills, for $ 1,000,000,000 (XX), or thereabouts, to be dated February 3, 1966 (XX), and to mature August 4, 1966 (XX).

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 amour 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 $1,000,00((maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closi hour, one-thirty p.m., Eastern Standard time, Monday, January 31, 1966 (XX). Tend will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



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Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard, time, Monday, January 31, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury 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 Bank on February 3, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 3, 1966. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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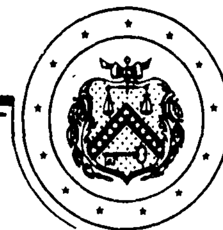
TREASURY DEPARTMENT



WASHINGTON, D.C.

January 26, 1966

FOR RELEASE P.M. NEWSPAPERS
WEDNESDAY, JANUARY 26, 1966

William Robert Grubb, 50, of the Treasury, died late Tuesday night at the Washington Hospital Center after a heart attack.

Mr. Grubb was Special Assistant to Comptroller of the Currency James J. Saxon. In that post he was responsible for the public information activities of the Comptroller's office.

Mr. Grubb came to the Treasury in 1963 as a public affairs consultant in the Office of the Secretary. In that capacity he was active in the information program for major tax legislation. Secretary of the Treasury Henry H. Fowler, in expressing his regrets, characterized Mr. Grubb as "a dedicated public servant".

Later in 1963 Mr. Grubb became Public Information Officer for Mr. Saxon, and in 1964 was named Special Assistant to the Comptroller.

Before coming to the Treasury, Mr. Grubb served several years as a private public relations consultant in the New York area. At that time he and his family lived at Westport, Conn. From 1951 to 1960 he was with the New York public relations firm of Carl Byoir and Associates, Inc.

Mr. Grubb had been a newspaper reporter and editor for 14 years before entering the public relations field. He worked on daily newspapers in Buffalo, New York, and Philadelphia and Bethlehem, Pa.

From 1942 to 1948 he was with the Associated Press, at one time serving as news supervisor of the World Service in New York.

Mr. Grubb was born in Easton, Pa. He was a graduate of Pennsylvania State University, where he received a bachelor's degree in journalism, and was a member of the Alumni Advisory Board of the Pennsylvania State School of Journalism.

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(OVER)

Mr. Grubb was very active in community affairs. He was a founder of the United Youth Fund of Westport -- a community fund raising organization. He was a member-at-large of the National Council, Boy Scouts of America, and public relations advisor to the Boy Scouts of America. He was a member of Sigma Delta Chi, the National Press Club, the New York Deadline Club, and the Silurians Club, an organization of financial news writers.

He was also a charter member of the Overseas Press Club in New York and public relations advisor to both the National Art Museum of Sports and the American Society for the Preservation of Historic Ireland. He was a member of St. Alban's Episcopal Church in Washingtc

Survivors include his wife, Marion, of 3005 Cathedral Avenue,N.W. three children, Michael, a junior at Cornell University, Dennis, a senior at Southern Illinois University, Carbondale, Ill., and Marcia, a student at Western High School; and a brother, Norton of Bowie, Md., former advertising manager of the Washington World, now with the Commerce Department.

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to build a cooperative response to their national, regional and Asia-wide economic problems. And finally, the Bank's ch rter operations ~~will be guided by~~ sound development lending principles learned over decades in the World Bank and other international development institutions.

Thank you.

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place in discharging its responsibilities during the formative period of the Bank's development.

To sum,up, then, I heartily commend the Asian Development Bank to you, and I hope that this distinguished Committee will act favorably and soon upon ~~H~~ because:

In my opinion, organization of the Asian Development Bank affords the United States a unique opportunity to show its goodwill toward the peoples of Asia as a whole. It is well within our financial means. It will be able to use its resources in numerous ways consistent with the assistance programs we have long sponsored and continue to sponsor in Asia, and will draw new capital resources into the vast task of economic development in an area extending from the Caspian Sea to the South Pacific. The Asian Development Bank is a nucleus around which the Asian peoples can draw together

and financial needs.

~~-- The Bank extends the pattern of regional development banks to each of the continental land masses of the developing world. Regional development banks already exist in Latin America and in Africa.~~

~~Voting by the Board of Governors will be related to the size of subscriptions in the Bank's capital. The Bank's structure and voting procedures are such as to assure that our interest in having the Bank pursue sound development activities is adequately supported.~~

Let me add that ~~authorization for~~ the President to accept membership in the proposed Bank at an early date ~~would be in the national interest~~. The vital organizing meetings of the bank are to be held promptly after the Bank enters into force. The United States should be in position to take its proper

against our exports it appears that any effects upon our balance of payments will be very small.

~~[illegible]~~ are contributing 65 percent of the authorized capital of the Bank, giving clear evidence of their deep commitment to the idea of regional cooperation for development.

-- Our economic interests will be well served by membership in the Asian Development Bank. ~~While our subscription of~~ $200 million represents 20 percent of the Bank's authorized capital, the expected subscriptions of the other advanced countries -- Japan, Australia and New Zealand in the Asian region, and nearly a dozen elsewhere -- represent more than double that amount.

~~-- Half the Bank's capital must be subscribed in hard money.~~

-- The Asian Development Bank satisfies a widespread desire of Asian countries for a development institution that is their own, specifically attuned to their economic, social

"Asia's future -- and the world's -- requires it."

But, as the President also noted in his Message, the Bank is neither utopian nor vague.

On the contrary, United States participation in the Bank is desirable for the following very practical reasons, among others that will emerge in the testimony of Under Secretary Barr and the further details that you will find in the Treasury Special Report on the Proposed Asian Development Bank that has been made available to you.

-- The Asian Development Bank will make sound loans for economic development in Asia.

-- Its lending will complement and extend the effectiveness of the economic assistance the United States and others are now giving in Asia.

-- When outlays of capital for the new Bank are matched

mode that Eugene Black made famous in the many years he was at the helm of the World Bank. In my opinion, the fact that Eugene Black has been in on every phase of the organization of this Bank, and that, together with Under Secretary Barr, he was willing to put his signature to its Charter at Manila last December 4, is one of the strongest recommendations that can be made for United States participation in it.

The members of this Committee were asked to be members, as Congressional Advisers, of the United States Delegation to the Manila Conference. We were delighted that many of you accepted, and that in consequence our delegation to Manila had a very distinguished Congressional element.

President Johnson summed up our reasons for participation in the Asian Development Bank in a single sentence of his Message of January 18:

Inter-agency Task Force of the Executive Branch ~~Task Force~~ dealing with the Asian Development Bank. He was alternate chairman, with Eugene R. Black, of the United States Delegation to the Founding Conference for the Asian Development Bank at Manila last December. Assistant Secretary Trued headed the United States Delegation to the Bangkok Conference, last October, at which the proposed new Bank's Articles of Agreement were negotiated.

The Bank's Articles reflect the experience and wisdom of Eugene Black, the President's Special Adviser on Economic and Social Development in Southeast Asia. In effect the Articles are his testimony to you, since he cannot be here because he is preparing for a journey abroad. I think you will see in the Articles of Agreement the stamp of prudence and imagination ~~in the use of limited development funds for unlimited development~~

in this new ~~continental~~ development bank. I am very glad to note, therefore, that this distinguished Committee has given its attention to [illegible] without delay.

Our plans for presenting evidence to you on this subject are designed to continue this pace unabated. My statement, if it please you, will be brief and aimed chiefly at providing you with a statement of our views as to the role we think the Asian Development Bank will play, and why we believe that it is both important and necessary for the United States to participate in it.

I have asked the Under Secretary of the Treasury, Joseph W. Barr, who is here with me, and the Assistant Secretary of the Treasury for International Affairs, Merlyn N.Tru to complete the Treasury's testimony. You will find them highly qualified witnesses: Under Secretary Barr heads the

D R A F T

January 21, 1966

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
TO THE
INTERNATIONAL FINANCE SUBCOMMITTEE OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
WEDNESDAY, JANUARY 26, 1966

I appear before you this morning in support of a project charged with very special hope and meaning, for us, for the Free World as a whole, and, in particular, for no less than a billion people -- a third of humanity -- in Asia.

This project, as it comes before you, is the Asian Development Bank Act, H. R. [illegible] 12220. Identical legislation [illegible] Committee.

I urge, as President Johnson urged in his Message to the Congress of January 18, and as speakers on both sides of the aisle in the House have urged, that the Congress give prompt and firm approval to United States participation

TREASURY DEPARTMENT
Washington

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BEFORE THE
INTERNATIONAL FINANCE SUBCOMMITTEE OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
WEDNESDAY, JANUARY 26, 1966
10:00 A.M.

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This project, as it comes before you, is the Asian Development Bank Act, H. R. 12219 and H. R. 12220. Identical legislation has been introduced by other members of the Committee.

I urge, as President Johnson urged in his Message to the Congress of January 18, and as speakers on both sides of the aisle in the House have urged, that the Congress give prompt and firm approval to United States participation in this new development bank. I am very glad to note, therefore, that this distinguished Committee has given its attention to this matter without delay.

Our plans for presenting evidence to you on this subject are designed to continue this pace unabated. My statement, if it please you, will be brief and aimed chiefly at providing you with a statement of our views as to the role we think the Asian Development Bank will play, and why we believe that

it is both important and necessary for the United States to participate in it.

I have asked the Under Secretary of the Treasury, Joseph W. Barr, who is here with me, and the Assistant Secretary of the Treasury for International Affairs, Merlyn N. Trued, who is also present, to complete the Treasury's testimony. You will find them highly qualified witnesses: Under Secretary Barr heads the Inter-agency Task Force of the Executive Branch dealing with the Asian Development Bank. He was alternate chairman, with Eugene R. Black, of the United States Delegation to the founding conference for the Asian Development Bank at Manila last December. Assistant Secretary Trued headed the United States Delegation to the Bangkok Conference, last October, at which the proposed new Bank's Articles of Agreement were negotiated.

The Bank's Articles reflect the experience and wisdom of Eugene Black, the President's Special Adviser on Economic and Social Development in Southeast Asia. In effect the Articles are his testimony to you, since he cannot be here because he is preparing for a journey abroad. I think you will see in the Articles of Agreement the stamp of prudence and imagination that Eugene Black made famous in the many

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> "Asia's future -- and the world's -- requires it."

But, as the President also noted in his Message, the Bank is neither utopian nor vague.

On the contrary, United States participation in the Bank is desirable for the following very practical reasons, among others that will emerge in the testimony of Under Secretary Barr and the further details that you will find in the Treasury

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Special Report on the Proposed Asian Development Bank that has been made available to you.

-- The Asian Development Bank will make sound loans for economic development in Asia.

-- Its lending will complement and extend the effectiveness of the economic assistance the United States and others are now giving in Asia.

-- When outlays of capital for the new Bank are matched against our exports it appears that any effects upon our balance of payments will be very small.

-- Countries in the Asian region are contributing 65 percent of the authorized capital of the Bank, giving clear evidence of their deep commitment to the idea of regional cooperation for development.

-- Our economic interests will be well served by membership in the Asian Development Bank.

-- While our subscription of $200 million represents 20 percent of the Bank's authorized capital, the expected subscriptions of the other advanced countries -- Japan, Australia and New Zealand in the Asian region, and nearly a dozen elsewhere -- represent more than double that amount.

-- The Asian Development Bank satisfies a widespread desire of Asian countries for a development institution that is their own, specifically attuned to their economic, social and financial needs.

Let me add that it would be in the national interest to authorize the President to accept membership in the proposed Bank at an early date. The vital organizing meetings of the bank are to be held promptly after the Bank enters into force. The United States should be in position to take its proper place in discharging its responsibilities during the formative period of the Bank's development.

To sum up, then, I heartily commend the Asian Development Bank to you, and I hope that this distinguished Committee will act favorably and soon upon this legislation because:

In my opinion, organization of the Asian Development Bank affords the United States a unique opportunity to show its goodwill toward the peoples of Asia as a whole. It is well within our financial means. It will be able to use its resources in numerous ways consistent with the assistance programs we have long sponsored and continue to sponsor in Asia, and will draw new capital resources into the vast task

of economic development in an area extending from the Caspian Sea to the South Pacific. The Asian Development Bank is a nucleus around which the Asian peoples can draw together to build a cooperative response to their national, regional and Asia-wide economic problems. And finally, the Bank's charter for operations is based upon sound development lending principles learned over decades in the World Bank and other international development institutions.

Thank you.

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TREASURY DEPARTMENT
Washington

STATEMENT OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE
INTERNATIONAL FINANCE SUBCOMMITTEE OF THE
HOUSE BANKING AND CURRENCY COMMITTEE
WEDNESDAY, JANUARY 26, 1966
10:00 A.M.

I come before this Committee on the subject of the Asian Development Bank with particular pleasure. I have had the benefit of extensive contact with a large number of the members of the Committee on this project who served as Congressional Advisers to the United States Delegation to the founding conference of the Asian Development Bank, at Manila last December.

It is my assignment, as the head of the Inter-Agency Task Force on the Asian Development Bank, to provide for you, in this testimony, information concerning the proposed Bank's structure and operations, additional to the President's Message of January 18 and Secretary Fowler's testimony. I will try, with the help of Assistant Secretary Merlyn N. Trued, to answer your questions. In my testimony, and in our answers to your questions, we will be drawing upon the Treasury Special Report on the Proposed Asian Development Bank, which has been provided to the Committee.

Before I enter into the body of my testimony,however, I would like to add my tribute to that of Secretary Fowler with respect to the role of Eugene Black in the organization of the Asian Development Bank. I would like to add what I am sure the many members of this Committee who served as Congressional Advisers at the Manila Conference learned, if they did not already know it: that Eugene Black has an exceptional standing among Asians. His judgment is trusted, for he is regarded by them not only as their friend, but as a wise friend.

The Proposed Bank's Resources

The Asians were prepared to provide the major part of the Bank's capital. But if the Bank were to be able to make any considerable contribution to the amelioration of Asia's tremendous economic and social problems, it was necessary to have financial links to the developed countries.

In part, this necessity was met by the fact that Japan offered to provide no less than $200 million of the Bank's proposed authorized capital of $1 billion, and that Australia and New Zealand, as countries within the region made further pledges totaling over $100 million.

The decisive event assuring that the Bank would be supported outside the region, was President Johnson's announcement, last April, that the United States would be prepared to be a member of a properly constituted Asian Development Bank. The United States pledge that you are now asked to approve is the same as Japan's -- $200 million. Other pledges from outside the region total over $100 million, including $30 million each from Great Britain and Germany, $25 million from Canada and $10 million from Italy.

The Bank's Articles permit it to increase its resources beyond its capital subscriptions in ways already familiar in the existing international development institutions.

- -- The Bank is authorized to accept from member or from non-member countries, or from others, Special Funds, which the Bank may administer on terms designated by the donor, so long as the purposes are consistent with the Bank's development objectives and methods.
- -- The Bank may enlarge its resources by borrowing, through the sale of its bonds in the world's capital markets. It is not expected that the Bank will be in position to commence such borrowing for some time. When it does begin, it is required to avoid any undue concentration of its borrowing in any one financial center.

-- The Bank can reconstitute its capital by sales from its loan portfolio.

The Bank is permitted to borrow or to sell from its portfolio in member countries only with prior official approval.

The Relation of the Asian Development Bank to Development Assistance in Asia

The proposed new Bank's authorized capital of $1 billion is equal to no more than $1 per head of the populations of the developing member countries. And, the Bank's development territory runs from Iran on the Caspian Sea to Western Samoa far into the Pacific.

The proposed Bank can make an important addition to what is now being done to help the Asian nations, and its activities will in many ways extend or even be a multiplier of present assistance. Let me mention a few such instances. The Bank can bring together consortiums for lending on projects that are too big for any one donor to undertake. It can improve the effectiveness of the assistance of others by helping to finance enlarged programs of technical education and training and other types of technical assistance. It can

improve the setting in which assistance is given, by financing surveys and through the provision of expert assistance in the formulation of projects.

Subscriptions to the Bank's capital will help to spread the aid burden -- by bringing in funds from nations not previously giving aid there, or by increasing the assistance that they might otherwise have provided.

The proposed Bank's authority to accept and administer Special Funds would also permit it to spread the burden of development assistance by serving as a channel for this form of additional financing from donor countries.

The Bank's Charter gives it all necessary powers to stimulate and assist private enterprise development in Asia. The Bank can do the following:

-- Make loans directly or guarantee loans by others to private enterprises in Asian countries.

-- Make loans to development banks in Asian countries which would then relend to small private enterprises.

-- At an appropriate time, commence to invest in equity capital of private enterprises.

-- Facilitate development of local capital markets by underwriting or participating in underwriting of securities issued by private enterprises.

-- Draw on funds in private capital markets, through bond sales and sales of portions of loans it has made, for lending in the Asian region.

Normally, the Bank's hard loans will be similar to those of the World Bank, currently 5-1/2 percent interest and up to 25-30 years maturity.

The Asian Development Bank's Charter permits it also to extend and increase the economic assistance being given in Asia in a limited special use of its own funds. I refer to the authority given the Bank to earmark up to 10 percent of its paid-in capital as Special Funds that it may use to make, or to guarantee, loans of longer than usual maturity, with longer initial periods before repayment begins, and lower than ordinary interest rates.

These loans are to go to projects where the need is great, the potential payoff is great, but where the ability to liquidate the debt on conventional terms is low in the absence of such assistance. This gives the Bank a means -- through use of its own funds -- to break through the vicious cycle in which poverty becomes the cause of poverty.

The Membership and Management of the Proposed Asian Development Bank

The Asian Development Bank's membership is open to members and associate members of the United Nations' Economic Commission for Asia and the Far East, and to other Asian nations -- and developed non-Asian nations -- that are members of the United Nations or of any of its specialized agencies. This excludes Communist China, North Korea and North Vietnam.

At the Manila conference, the United States and 21 other countries signed the Bank's Charter. In addition, other countries named in Annex A to the Articles of Agreement can become Charter members by signing and making a pledge by January 31. Thereafter, members may be admitted only by the vote of two thirds of the Governors of the Bank -- one Governor per member -- representing not less than three fourths of total voting power.

Voting in the Bank will be related to size of subscription. Twenty percent of the total votes, called basic votes, are to be distributed equally among the members. The rest are distributed in proportion to subscriptions.

Since the United States is a minority subscriber in the Asian Development Bank it has a minority voting position, roughly 17 percent of the total votes. However, the Charter of the proposed Bank provides that matters of unusual importance are to be settled by votes requiring large majorities -- two

thirds in some cases and in others, such as membership, three quarters of total voting strength. All member countries, regional and non-regional, have a substantial financial stake in the Bank. Under these circumstances, it can be expected with reasonable certainty that our capital and position in the Bank can be protected.

The Board of Governors will be the senior policy making arm of the Bank. Day to day supervision of policy is to be in the hands of a ten-man Board of Directors. The subscription of the United States entitles it to one of the three non-Asian Directorships. The Governors will elect the Bank's chief executive, its President, who is to be an Asian. This President is to serve for a renewable five year term.

The Asian members of the Bank have selected Manila as the Bank's site.

The Bank is to enter into force when 15 of the signatories of the Bank's Charter -- 10 of them Asian -- having subscriptions of at least $650 million, have deposited instruments of ratification or acceptance of membership. The legislation that is before this Committee would authorize the President of the United States to accept membership in the proposed Bank.

The Board of Governors is to hold its inaugural meeting, elect the Bank's President and make other vital decisions establishing in the Bank's regulations the purposes and practices envisaged in its Charter, soon after the minimum requirement for entry into force is met. It is for this reason that the President proceeded speedily in the new term to ask the Congress to authorize United States participation, and that early action by the Congress is essential.

Subscription to the Capital of the Asian Development Bank

The authorized capital of the Asian Development Bank is $1 billion. Asian nations are authorized to subscribe $650 million dollars and others $350 million.

Half the authorized capital is to be paid in five equal annual payments. The other half is callable capital to be fully subscribed -- without any payment required -- at the outset. The function of the callable portion is the same as in the World Bank and the Inter-American Development Bank: to provide backing against which the Bank would be able to sell bonds. The funds would be called for only if needed to make good on such borrowings. In the experience of the World Bank

and the Inter-American Development Bank, the use of the callable capital has never been required and we do not expect that it would be required by the Asian Development Bank.

All subscriptions to paid-in capital are to be at least half in dollars or other convertible currency. No member may restrict the Bank's use of this portion of its subscription. The remainder may be in the currency of the subscriber. In the case of the United States this payment will be on a convertible basis.

The $200 million United States pledge to the capital of the Asian Development Bank is smaller than its share of the capital of the World Bank, the International Development Association, or the Inter-American Development Bank.

Required U. S. payments amount to $20 million initially and $20 million a year thereafter until $100 million has been paid.

However, one half of each $20 million payment would, in accordance with an option given in the Articles, be made in the form of irrevocable letters of credit to the Bank, to be drawn upon only when the cash is actually needed by the Bank. Table 3 in the Treasury Special Report on the Proposed Asian Development Bank summarizes, by fiscal year, the subscription obligations of the United States.

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The Asian Development Bank and
The United States Balance of Payments

The foregoing section of my testimony indicates that in practice, the effects upon our Balance of Payments of our capital subscription to the Asian Development Bank would not exceed, initially, the cash portion of our payment, that is, $10 million in the first year.

Over a somewhat longer term, looking into the period when procurement in the U. S. resulting from the proposed Bank's lending would largely match our subscriptions, we look for no net balance of payments cost to the United States resulting from our participation in the Asian Development Bank.

This is the case because, first, procurement by the Bank is limited to member countries, and, second, the Bank's lending will finance, for the most part, the purchase of capital goods and expert services.

The United States is a competitive world supplier of capital goods and of technical services. Further, the United States has a strong supplier position already in a number of the countries where the Bank will be lending for development. The United States has pledged to subscribe about a fourth of the Bank's convertible currency. Convertible currency procurement in the U. S. resulting from Bank lending should come close to or exceed this proportion.

Any United States contributions as Special Funds to the Bank can be tied explicitly to procurement in the United States.

The Bank cannot use its dollar holdings as a claim on our gold stock.

Thank you.

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Attachments

TABLE 1. SUBSCRIPTIONS TO ASIAN DEVELOPMENT BANK CAPITAL
(Based on Pledges as of January 25, 1966)

	In $ Mil.	% of Total Sub-scriptions	% of Developed Country Sub-scriptions	% of Re-gional Country Sub-scriptions
Regional:				
Afghanistan	3.36	0.3	--	0.5
Australia	85.00	8.7	13.2	13.2
Cambodia	3.00	0.3	--	0.5
Ceylon	8.52	0.9	--	1.3
Rep. of China	16.00	1.6	--	2.5
India	93.00	9.5	--	14.5
Iran	60.00	6.1	--	9.3
Japan	200.00	20.4	31.1	31.1
Korea	30.00	3.1	--	4.7
Laos	0.42	--	--	--
Malaysia	20.00	2.0	--	3.1
Nepal	2.16	0.2	--	0.3
New Zealand	22.56	2.3	3.5	3.5
Pakistan	32.00	3.3	--	5.0
Philippines	35.00	3.6	--	5.5
Vietnam	7.00	0.7	--	1.1
Singapore	4.00	0.4	--	0.6
Thailand	20.00	2.0	--	3.1
Western Samoa	0.06	--	--	--
Sub-Total:	642.08	65.6	47.8	100.0
Non-Regional:				
Austria	5.00	0.5	0.8	--
Belgium	5.00	0.5	0.8	--
Canada	25.00	2.6	3.9	--

TABLE 2. VOTING STRENGTH IN ASIAN DEVELOPMENT BANK
(Based on Pledges as of January 25, 1966)

Country	Subscription Amount (In $ Mil.)	Pro-portionate Votes	Basic Votes	Total Votes	% of Total
REGIONAL:					
Afghanistan	3.36	336	789	1,125	0.92
Australia	85.00	8,500	789	9,289	7.60
Cambodia	3.00	300	789	1,089	0.89
Ceylon	8.52	852	789	1,641	1.34
China	16.00	1,600	789	2,389	1.95
India	93.00	9,300	789	10,089	8.25
Iran	60.00	6,000	789	6,789	5.55
Japan	200.00	20,000	789	20,789	17.00
Korea	30.00	3,000	789	3,789	3.10
Laos	0.42	42	789	831	0.68
Malaysia	20.00	2,000	789	2,789	2.28
Nepal	2.16	216	789	1,005	0.82
New Zealand	22.56	2,256	789	3,045	2.49
Pakistan	32.00	3,200	789	3,989	3.26
Philippines	35.00	3,500	789	4,289	3.51
Singapore	4.00	400	789	1,189	0.97
Thailand	20.00	2,000	789	2,789	2.28
Vietnam	7.00	700	789	1,489	1.22
Western Samoa	0.06	6	789	795	0.65
NON-REGIONAL:					
Austria	5.00	500	789	1,289	1.05
Belgium	5.00	500	789	1,289	1.05
Canada	25.00	2,500	789	3,289	2.69
Denmark	5.00	500	789	1,289	1.05
Finland	5.00	500	789	1,289	1.05
Germany	30.00	3,000	789	3,789	3.10
Italy	10.00	1,000	789	1,789	1.46
Netherlands	11.00	1,100	789	1,889	1.54
Norway	5.00	500	789	1,289	1.05
Sweden	5.00	500	789	1,289	1.05
United Kingdom	30.00	3,000	789	3,789	3.10
United States	200.00	20,000	789	20,789	17.00
Total Regional	642.08	64,208	14,991	79,199	64.78
Total Non-Regional	336.00	33,600	9,468	43,068	35.22
Grand Total:	978.08	97,808	24,459	122,267	100.00

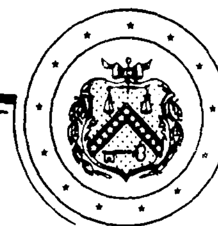
Note: Totals may not add due to rounding.

Table 1. (continued)

Denmark	5.00	0.5	0.8	--
Finland	5.00	0.5	0.8	--
Germany, Fed. Rep. of	30.00	3.1	4.7	--
Italy	10.00	1.0	1.6	--
Netherlands	11.00	1.1	1.7	--
Norway	5.00	0.5	0.8	--
Sweden	5.00	0.5	0.8	--
United Kingdom	30.00	3.1	4.7	--
United States	200.00	20.4	31.1	--
Sub-Total:	336.00	34.3	52.2	--
GRAND TOTAL	978.08	100.0	100.0	100.0

Note: Totals may not add due to rounding.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

January 26, 1966

TREASURY ANNOUNCED $28.8 BILLION REFUNDING

The Treasury today announced that it is offering holders of the notes maturing February 15, 1966, and five other note and bond issues maturing from April 1 to August 15, 1966, an opportunity to exchange their holdings at attractive yields.

The securities eligible for exchange and those being offered are as follows:

Securities eligible for exchange and their maturity dates		Securities offered in exchange and their maturity dates	
3-5/8% notes, B-1966	2/15/66	4-7/8% notes, E-1967	8/15/67
3-7/8% notes, C-1966	2/15/66	5% notes, A-1970	11/15/70
1-1/2% notes, EA-1966	4/1/66		
PREREFUNDING			
4% notes, D-1966	5/15/66	5% notes, A-1970	11/15/70
3-3/4% bonds, 1966	5/15/66		
4% notes, A-1966	8/15/66		
3% bonds, 1966	8/15/66		

The public holds $13.7 billion of the securities eligible for exchange, and about $15.1 billion is held by Federal Reserve and Government investment accounts.

Cash subscriptions for the new securities will not be received.

The books will be open for three days only, on January 31 through February 2, for the receipt of subscriptions. Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Office of the Treasurer of the United States, and placed in the mail before midnight, February 2, will be considered as timely. The payment and delivery date for the new notes will be February 15, 1966. Interest will be adjusted as of that date except in the case of the notes of Series EA-1966 on which interest will be adjusted as of March 15, 1966. The new notes will be made available in registered as well as bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service. This is a taxable exchange.

All coupons dated February 15, 1966, on the securities eligible for exchange should be detached and cashed when due. All other coupons on securities eligible for exchange must be attached. The February 15, 1966, interest due on registered securities will be paid by issue of interest checks in regular course to holders of record on January 14, 1966, the date the transfer books closed. If a net amount is payable by the subscriber it should accompany the subscription.

F-357

Interest on the 4-7/8% notes will be payable on August 15, 1966, and February 15 and August 15, 1967. Interest on the 5% notes will be payable on May 15 and November 15, 1966, and thereafter on May 15 and November 15 until maturity.

Details showing cash and interest adjustments appear in Table 1, and approximate investment yields in Table 2, both tables attached.

TABLE NO. 1

Payments to and by the Subscriber in the February 1966 Refunding

(In dollars per $100 face value)

Securities to be exchanged	Amounts to be paid to or by subscribers					
	Price adjustment payment 1/		Accrued interest to adjustment date 4/ to be paid		Net amount to be paid	
	To subscriber	By subscriber	To subscriber 2/	By subscriber 3/	To subscriber	By subscriber
			For the 4-7/8% Note 8/15/67			
3 5/8% Note 2/15/66..	.125000				.125000	
3 7/8% Note 2/15/66..	.125000				.125000	
1 1/2% Note 4/1/66	.125000		.679945	.377072	.427873	
			For the 5% Note 11/15/70			
3 5/8% Note 2/15/66..					-	-
3 7/8% Note 2/15/66..					-	-
1 1/2% Note 4/1/66			.679945	.386740	.293205	
4% Note 5/15/66		.250000	1.016575		.766575	
3 3/4% Bond 5/15/66		.300000	.953039		.653039	
4% Note 8/15/66		.450000				.450000
3% Bond 8/15/66		.900000				.900000

1/ Payment on account of purchase price of offered securities.
2/ On securities exchanged.
3/ On securities offered.
4/ March 15, 1966, for the 1-1/2% notes and February 15, 1966, for the May 15, 1966, maturities.

TABLE No. 2

Investment returns in the February 1966 Pre-Refunding

Securities eligible for exchange 1/	Approximate investment yield from 2/15/66 to maturity 2/	Approximate reinvestment rate for the extension period 3/
3-3/4% Bond, May 15, 1966	4.98%	5.00%
4% Note, May 15, 1966	4.98	5.00
3% Bond, Aug. 15, 1966	4.98	5.02
4% Note, Aug. 15, 1966	4.97	5.00

Office of the Secretary of the Treasury
Office of Debt Analysis

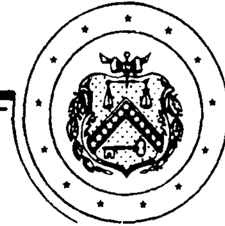
January 26, 1966

1/ Not eligible for nontaxable exchange privilege.

2/ Yields to nontaxable holders (or before tax) on issues offered in exchange based on prices of eligible issues (adjusted for payments on account of issue price). Prices are the mean of bid and ask quotations at noon on January 25, 1966.

3/ Rate for nontaxable holder (or before tax).

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 27, 1966

FOR IMMEDIATE RELEASE

ABU DHABI, BAHRAIN, INDONESIA, IRAN, IRAQ, KUWAIT--
SAUDI ARABIA NEUTRAL ZONE, LIBYA, QATAR AND SAUDI ARABIA
TO BE MADE SUBJECT TO INTEREST EQUALIZATION TAX

The President has notified the Congress that on or shortly after February 26, 1966, he intends to issue an Executive Order terminating the "less developed" designation of Abu Dhabi, Bahrain, Indonesia, Iran, Iraq, Kuwait--Saudi Arabia Neutral Zone, Libya, Qatar and Saudi Arabia for purposes of the Interest Equalization Tax.

The President's action will have the effect of applying the Interest Equalization Tax to purchases by U. S. citizens from foreigners of stock and debt obligations originating in these nine countries which are currently exempt from the Tax. All such purchases made after the date of the Executive Order will be subject to the Tax, except those for which written commitments existed prior to December 7, 1965, the date on which notice of the President's intention to issue this Executive Order appeared in the Federal Register.

The Interest Equalization Tax has been applied to the acquisitions of various foreign securities by U. S. citizens since July 18, 1963. The Tax is designed to help curb the outflow of capital from the United States, which has been a major factor contributing to this country's adverse balance of payments position. The Tax does not apply to stock and debt obligations issued by countries which, for the purpose of this Tax, are determined to be "less developed countries," and by certain corporations and other persons living or doing business in such countries.

The Interest Equalization Tax law authorizes the President to expand the list of countries considered not to be "less developed," so that the application of the Tax can be adjusted to reflect economic development in different parts of the world. When such changes are to be made, however, Congress must be given 30 days advance notice.

In connection with the intensified balance of payments program announced on December 6, 1965, the Administration has reviewed the list of "less developed countries" currently exempt from the Tax. On the basis of that review it was determined that these nine countries should no longer be considered as less developed for purposes of the Interest Equalization Tax. This action parallels the inclusion of these countries under the voluntary program administered by the Commerce Department.

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OFFICE OF THE SECRETARY OF THE TREASURY

Washington, D. C. 20220

STATEMENT

by

DAVID C. ACHESON
Special Assistant to the Secretary
(for Enforcement)

before the

SUBCOMMITTEE TO INVESTIGATE JUVENILE DELINQUENCY
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ON S. 2152, S. 2113 AND S. 2114

Thursday, January 27, 1966
10 A.M.

Mr. Chairman:

The Treasury Department welcomes the opportunity to give its views on the bills relating to the treatment and rehabilitation of narcotic addicts. Your letter inviting our views mentions three bills, S. 2152, S. 2113 and S. 2114. These bills have important objectives in common and also have some important differences.

As a preliminary, let me say that the Treasury, while charged with enforcement of the federal narcotic laws, wholeheartedly supports any program which holds out additional promise of reclaiming narcotic addicts and restoring them to a functional, productive life in their communities. There is nothing inconsistent between this objective and the parallel objective of building cases on the racketeers and profiteers who illegally import and distribute narcotic drugs for gain. We want to send as many of them to jail as we can. We want to see as many as we can of their addicted victims treated and restored to independence from their habit.

When we speak of the narcotics problem, we must not forget that we are dealing with several wholly different types of people. There are large traffickers who are not addicts. For them the only treatment we can provide is prosecution. There are traffickers, ranging from small peddlers to substantial retail traffickers, who are addicts. For some, an opportunity for treatment might hold promise, for others

clearly not. Then there are criminals who are addicts, who commit a wide range of offenses other than narcotic offenses. Some are dangerous, some are not. Some are hopeless cases for treatment of their addiction, some are not. A statutory program for treatment, to be successful, must enable a sorting out of these categories from each other, and must allow enough judicial and executive discretion so that the borderline cases can be handled as common sense and the particular facts may suggest.

We welcome legislation which can accomplish these objectives. There is a good chance that we can lighten the burden of the federal courts, provide more hopeful treatment for amenable addicts, and protect the public from taking chances with truly dangerous criminals. While all of these bills point toward these objectives, we believe that S. 2152 contains important advantages over the other legislation and would make the longest gains in the directions that we all want. It is the only one

of the bills that has all of the features that we regard as important:

1) pretrial commitment procedure in lieu of prosecution;
2) eligibility for treatment beyond those charged with narcotic offenses;
3) violent offenders excluded from statutory treatment procedure and conditional release; and
4) retention of mandatory penalties for continued use against traffickers, and to put effective teeth into the procedure for electing treatment.

Three facts dominate the narcotics problem today and make S. 2152 and other similar legislation which is before this subcommittee matters of urgent concern.

First, addiction to narcotic drugs is a cause of substantial social waste and human losses, counted both in the misery that addicts inflict upon themselves and in the crime which they inflict on others.

Second, narcotic addiction is a sickness. Addicts need medical treatment not only to halt the physical compulsion to use drugs, but also to attack whatever it may be that leads them back to drugs long after physical dependence has been cured.

Third, we need flexible legal machinery that will enable us to use medical resources to the limit of our knowledge of drug addiction.

S. 2152 is a response to those needs. Of course, the bill will end neither crime nor addiction. It will, however, offer the addict who becomes involved in crime the hope and the means of rehabilitating himself and returning to a productive and drug-free life in the community. It will do this without jeopardizing the safety of the public and without impairing law enforcement.

S. 2152 is organized in three titles. Title I would establish a procedure whereby a narcotic addict who is charged with a federal offense and who meets certain standards of eligibility could be considered for medical treatment instead of standing trial. Title II would establish an alternate sentencing procedure whereby certain narcotic addicts who are convicted of a federal offense could be committed for medical treatment instead of being imprisoned. Title III would make parole available to all violators of the marihuana laws, and make indeterminate sentencing under the Federal Youth Corrections Act available to all violators of the marihuana and narcotics laws who have not attained the age of 26 at the time of conviction.

TITLE I

There are five principal features of the pretrial commitment procedure provided for in Title I. (1) The election to convert the criminal case into a civil commitment must be made by the defendant at an early stage of the criminal proceeding. (2) The election is only open to those addicts who are thought by the court to be likely to be rehabilitated by treatment. (3) The treatment is for a period of up to 36 months and includes both institutional confinement and supervised aftercare in the community. (4) The prosecution of the criminal charge can be resumed in the event that medical treatment fails. (5) The civil commitment is not deemed a criminal conviction. These five points are expanded below.

Election. Under the existing system, one of two things happens to the narcotic addict who is charged with a federal offense. If he makes bond, he remains free pending trial and normally continues to commit crime to support his habit. If he fails to make bond, he is incarcerated, normally without treatment. Under S. 2152, the eligible addict is advised of the treatment option at his first appearance before the district court. Within five days of that appearance he must make his election. If he elects treatment he is then confined for examination without bond. This procedure has the double

advantage of protecting the public against the addict and the addict against himself, and it does both without the long delays so often encountered in bringing a case to trial.

Eligibility. There are many varieties of narcotic addicts charged with federal crime. Some addicts pose a greater threat to society than others and some are better prospects for rehabilitation than others. S. 2152 recognizes these distinctions. It is designed to make civil commitment available only to those addicts who present a low risk of danger and a high potential for cure. The addict is excluded if he is charged with a crime of violence, or with a sale of narcotics unless such sale was related primarily to his own addiction, or if another felony charge is pending against him or he is on probation or parole, or if he has twice been convicted of a felony or twice civilly committed for addiction. If none of these exclusions apply and the addict elects treatment, he is committed to the custody of the Surgeon General for an examination. He is not committed for treatment unless the court, acting on the Surgeon General's report and other information, determines both that he is an addict and that he is likely to be rehabilitated.

This careful selection process is one of the most important safeguards in the bill.

Treatment. Ending an addict's physical dependence on a drug is only the beginning of treatment. Drug addiction and its underlying causes are a chronic disease, and a program of institutional treatment and aftercare in the community are necessary to prevent relapse. This is the lesson which has been so painfully learned at the federal hospital at Lexington, where the freedom to discontinue treatment and the absence of aftercare have resulted in a relapse rate of about 90% among voluntary patients.

Under S. 2152, the committed addict would be maintained in the custody of the Surgeon General, for up to three years. The Surgeon General could keep him hospitalized for as much of this period as necessary, subject only to the requirement that the court be notified after confinement for 24 months. The Surgeon General would also fix the time and terms of the conditional release and designate the aftercare authority to which the addict would be required to report. This would enable the treatment to follow the addict into the community. The Surgeon General could revoke the conditional release at any time and return the addict to institutional treatment. During his unbroken span of control, the broadest range of services and facilities, both public and private, would be available to the Surgeon General.

This is the kind of coordinated program, having both compulsion and continuity, which promises success. This promise would be reinforced by the careful selection process, already described, which screens out of the program those addicts not likely to be rehabilitated.

The Criminal Charge. Motivation is an essential element of treatment. Under S. 2152 this motivation would be provided in the form of the abeyant criminal charge. If the addict relapsed to the use of narcotics, or if a 36-month period elapsed without the Surgeon General certifying successful treatment, prosecution on the original charge would be resumed. These provisions will make recovery a matter of self-interest for the addict. They will also protect the public against the premature release of the uncured addict.

TITLE II

In New York's experience with the Metcalf-Volker Act, although this experience is short and not fully applicable to federal criminal proceedings, many addicts have not elected pretrial civil commitment even when it was available. In contemplation of this, S. 2152 provides an alternate sentencing procedure whereby selected narcotic addicts can be committed for treatment following conviction.

Commitment under these provisions resembles a Title I commitment in that the addict must meet the same standards of eligibility and must be found after preliminary examination to be a likely prospect for rehabilitation. These precautions are again taken in the interest of public safety and with the intent of making the treatment facilities available only to those most likely to profit from them.

An addict committed under this title would be placed in the custody of the Attorney General for an indeterminate period of not longer than 10 years and in no event to exceed the maximum sentence which could otherwise have been imposed. He would be eligible for conditional release after six months in a treatment institution and upon certification by the Surgeon General that he had made sufficient progress to warrant release under supervision. The Board of Parole would be the supervising authority.

The idea of post-conviction commitment for narcotics addicts is not a new one. California adopted the procedure in 1961 and has had an acceptable measure of success. It is time to put the idea to work in federal procedure.

TITLE III

One provision of this title makes parole available to all marihuana offenders. A second extends the indeterminate sentencing provision of the Federal Youth Corrections Act to all narcotic drug and marihuana violators under the age of 26. A third directs the Board of Parole to review and reconsider in light of the first two provisions the sentences of all marihuana offenders and all narcotic drug offenders who were under the age of 26 when convicted.

Since the use of marihuana is hard to detect, does not produce physical dependence, and is not principally a medical problem, the commitment procedures established by Title I and Title II are not provided for marihuana users. An intensive course of medical treatment for such persons would be clearly inappropriate. At the same time the absence of addiction in the marihuana user makes him less likely to relapse and gives him a higher potential for rehabilitation. Eligibility for parole will give him the chance to realize this potential.

The Young Adult Offenders Act extended to persons between the ages of 22 and 26 the benefits of indeterminate sentencing and conditional release under the Federal Youth Corrections Act. Under present law persons are excluded from these benefits if they are convicted of an offense for which a mandatory

minimum penalty is provided. S. 2152 would remove this exclusion as to marihuana and narcotic drug offenders, and will thus give those offenders under age 26 the same opportunity for rehabilitation as other offenders of the same age. This would recognize the particular importance of exhausting the avenues of rehabilitation for youth in a way not likely to give comfort to racketeers.

COMPARISON OF S. 2152 WITH S. 2113 AND S. 2114

S. 2113, which establishes a pretrial commitment procedure, is more or less similar to Title I of S. 2152. S. 2114 deals with the sentencing questions which are covered in Title II and Title III of S. 2152. Both of these bills, however, contain provisions in which the Treasury Department sees major disadvantages. I would like to touch upon some of the major points of difference.

(1) S. 2113 would exclude from the civil commitment procedure all persons but those charged with a violation of federal narcotics laws. Yet an addict who forges a government check to obtain money to buy drugs is no less in need of treatment than an addict who is arrested for a violation of the narcotics laws. We believe that an effective treatment program must reach as many addicts as possible within the limitations

of public safety and sound medical practice. The exclusion of all non-narcotic offenders would not promote this end. As of last year, for example, 43 percent of the addicted inmates of federal prisons were serving sentences for non-narcotic offenses.

(2) S. 2113 would exclude from the civil commitment program any person charged with a narcotic violation which "involved the sale of narcotics . . . . to another, with knowledge that the person to whom the sale was made intended to dispose of such narcotics by resale." This is an attempt to distinguish between the small pusher who sells to support his own habit and the major trafficker or wholesaler who sells for profit. The Department agrees that the big commercial sellers should be excluded. The language of S. 2113, however, poses an insoluble evidentiary problem. The majority of narcotic sales which result in prosecution are made to undercover police officers who obviously don't intend to resell. This would preclude a showing of knowledge on the part of the seller, and he would be able to avoid the exclusion.

We see important advantages in the language of S. 2152, which excludes every person charged with a sale of narcotics

"unless the court determines that such sale was for the primary purpose of enabling the individual to obtain a narcotic drug which he requires for his personal use because of his addiction to such drug." This language is certainly not free of difficulty, but it at least will give effect to the policy of excluding the profiteer from civil commitment.

(3) Under S. 2113, after the election for treatment is made, the Surgeon General conducts a preliminary examination and reports to the court only on the question whether the individual is a narcotic addict. If he is, he may be civilly commited. Under S. 2152, on the other hand, the Surgeon General must report, and the court must determine, both that the individual is an addict and that he is likely to be rehabilitated.

Since the Surgeon General administers the treatment program, it is clearly appropriate for him to have a part in determining who is suitable or unsuitable for medical treatment. The more thorough examination and the dual finding called for by S. 2152 would avoid this problem.

(4) S. 2114 would abolish the mandatory minimum penalties and the prohibition against parole wherever these are found in

the narcotic and marihuana laws. S. 2152 would mitigate these provisions only to the extent of authorizing parole for all marihuana offenses and increasing the coverage of the Young Adult Offenders Act.

The mandatory penalties are a hard but effective deterrent and an absolutely essential weapon against the higher and organized echelons of the illicit narcotic traffic. They are probably not effective and not essential against the small peddler who is an addict. The right way to handle these differences is not to do away with the mandatory penalties altogether, but rather to apply them selectively. This is done now pursuant to federal prosecution practice. If S. 2152 becomes law, moreover, the already remote chance of an addict being confronted with a mandatory penalty will be made still more remote by the pretrial and post-conviction commitment procedures. This legislation will give us the flexibility and the tools to do what should be done for the victims of the narcotics traffic and for the profiteers as well as for the many shades and degrees of other offenders.

At this point, Mr. Chairman, let me turn to the numbered questions on page two of your letter of December 16, 1965, to Secretary Fowler. I will take them in order.

Question 1. The Treasury is strongly convinced that the mandatory minimum sentence provisions in the narcotics laws should be retained, except to the extent mitigated by S. 2152. There is evidence that they have been a healthy deterrent. Prosecutors say that many sizable racketeers have abandoned the narcotics traffic in the belief that the risk of a long prison term had become unacceptably high. This attitude can have an important shrinking effect on the traffic, and perhaps proof of this can be found in the recent severe shortage of heroin in New York for many months and in the much greater dilution of the drug. Finally, in plotting the curve of the addiction rate per head of population, there appears to be a downward trend in the curve following the enactment of the mandatory minimum penalties in 1950 and 1956. Thus, while we cannot claim a mathematically precise and demonstrable causation from the penalties to the improved addiction rate, we do think the evidence points that way and we would not want to disturb any helpful factors in the enforcement picture.

But we should emphasize that there is room for discretion in sentencing in the present framework, contrary to what is commonly said and believed. Narcotic and marihuana sellers are _not_ automatically charged with offenses calling for mandatory sentences. Except in cases where there is proof of unlawful importation, or where the defendant has been previously convicted of a felony, prosecutions of first-offenders ordinarily proceed under non-mandatory statutes. First-offenders charged with possession offenses (not involving unlawful importation) are eligible to receive suspended sentences, to be placed on probation, and to be released on parole.

Second, the indeterminate sentencing and conditional release provisions of the Federal Youth Corrections Act are available to _all_ narcotic and marihuana violators under age 22, and to all first offenders under age 26 who are convicted under the possession statutes (26 U.S.C. §4704(a), 4744(a)).

Suspension of sentence, probation and conditional release are denied only if the defendant is not within either of these important categories which I have described.

Question 2. We believe that persons who are charged with dangerous crimes of violence should be excluded from eligibility for treatment, as under S. 2152. Treatment permits conditional release. The public should be protected from the repetition of dangerous offenses, and a balance must be struck between the aim of conditional release for addicts and secure custody of criminals who are dangerous to life and limb.

It is important to remember that, if treatment should prove ineffective, it might well be impossible to resume prosecution. Witnesses may be unavailable, evidence lost, or memories faded. Thus, the abeyance of prosecution while treatment takes place ought to be limited to offenders who will not be serious dangers to the public, should prosecution *and* treatment fail.

It is also important to remember that even dangerously violent offenders, who are addicts, can be treated under existing law as part of their institutional custody, without resort to the procedures of the bill. A prisoner in the Attorney General's custody can be given withdrawal treatment, psycho-

therapy and other treatment services short of release, either in a federal hospital, or within the medical facilities of a prison, or in some combination. Treatment can be required as a condition of probation or parole. Thus, to exclude violent offenders from eligibility under S. 2152 is not to deny treatment to them under present statutes.

Question 3. Undoubtedly, many habitual dangerous drug users would benefit from some form of treatment for their habit. Whether the treatment should be similar to, or very different from, the treatment needed by narcotic addicts is a matter on which the Surgeon General's views would probably be worth much more than the views of the Treasury Department. Perhaps the enforcement experience of the Department of Health, Education and Welfare under P.L. 89-74 will illuminate the useful avenues of treatment for takers of depressant and stimulant drugs. Without recommending the use of the same facilities and treatment for dangerous drug cases as for narcotic cases, we think that S. 2152 is flexible enough to authorize different modalities of treatment for a wide range of drug habits, and that there might well be advantages in modifying the bill to bring dangerous drug users under it.

Question 4. This answer would appear to cover question 4 as well as question 3.

Question 5. As written, S. 2152 would make offenders eligible for treatment who are charged with conspiracy to commit

a crime of violence or with conspiracy to import or sell narcotic drugs. Offenders charged with substantive crimes of violence and narcotic sales are ineligible. This is a loophole which would penalize the servant and reward the master of a criminal conspiracy. The conspirator should not be eligible if the substantive offender is not.

In addition, we believe that either the bill or the legislative history should equate a commitment to the custody of the Surgeon General under Title I with the custody described in the Federal Escape Act (Title 18 U.S.C. §751), so that an eligible addict committed for treatment under the bill, who escapes from institutional custody, can be prosecuted for that escape as can a federal prisoner.

Question 6. There is a significant flow of narcotic drugs and marihuana from Mexico into the United States. While Mexico is not the chief source of narcotics for the illicit market in the United States, it serves as one of the conduits for narcotics produced elsewhere. Mexico is the chief source of the marihuana distributed throughout the United States. While marihuana grown in the United States is often found in the traffic, it is the Mexican variety which appears to be preferred and is most prevalent in the United States.

In developing better methods to curb the illegal flow of narcotics and marihuana from Mexico, officials of Mexico and the United States have agreed to meet, and do meet, on a regular basis to discuss problems and establish cooperative measures. This program has proved to be successful and mutually satisfactory.

The Bureau of Narcotics has three agents stationed in Mexico who work closely with the Mexican Attorney General's office. At a meeting in June, 1965, representatives of the two countries resolved to intensify the efforts of both countries and agreed (1) to place two Mexican agents in the United States for liaison purposes, (2) to improve the system of exchange of information, (3) to intensify public education, and (4) to consider prosecution in Mexico of Mexican nationals who take refuge in Mexico after violating the laws of the United States.

While these are steps in the right direction, nevertheless continuing effort is needed to control the flow of narcotic and marihuana traffic from Mexico.

It should not be forgotten that the narcotics traffic from Mexico is only part of a larger smuggling problem in which truly effective enforcement at the borders is close to impossible.

Finely meshed mass customs inspection at the borders or at the ports, through which must freely flow vast rivers of vehicular traffic, ship and air traffic, freight and mail, is not physically possible on any basis that would be acceptable to American opinion or consistent with good government. We can do more, but it would cost more -- in men, money and public good will. At present we can perform little more than spot-check customs inspection, investigate suspicious circumstances, and investigate specific leads furnished by informers or agents. Narcotics enforcement, both by customs agents and narcotics agents, is very uphill work, and enforcement needs all the resources and legal authority that it can get. At best, we have hold of only the tip of the tail of the narcotics traffic, and we can never afford to be complacent about it or to think it is under control. In baseball there is a saying "you can't hit what you can't see," and this well states a dominant fact of life in narcotics enforcement.

While enforcement against the trafficker goes ahead, we would do well to diversify the tools we have for helping addicts and for developing, even in a small way, a hopeful rehabilitation program. S. 2152 would serve such a program, and we support it.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

January 28, 1966

FOR IMMEDIATE RELEASE

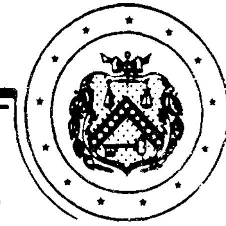
TREASURY DECISION ON SHOES
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed its investigation with respect to the possible dumping of shoes, leather, men's and boys' from Czechoslovakia. A notice of a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended, will be published in an early issue of the Federal Register.

Appraisement of the above-described merchandise from Czechoslovakia will continue to be withheld pending a final determination in this matter.

Imports of the involved merchandise received during the period June 1, 1964, through November 30, 1965, amounted to approximately $4,100,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

January 28, 1966

FOR IMMEDIATE RELEASE

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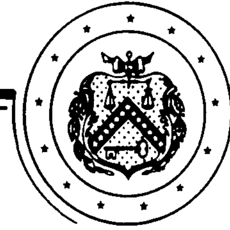

January 30, 1966

ADVANCE FOR USE A.M. PAPERS
MONDAY, JANUARY 31, 1966

NEW DEPUTY ASSISTANT FOR PUBLIC AFFAIRS

Secretary Fowler today announced the appointment of Mark T. Sheehan as Deputy Assistant to the Secretary for Public Affairs. Mr. Sheehan, who joined the Treasury on August 21, 1961, replaces Stephen C. Manning, Jr., who retired last month.

In his new post, Mr. Sheehan will be principal assistant to Dixon Donnelley, the Assistant to the Secretary for Public Affairs. Mr. Donnelley directs the information, press, and related activities of the Treasury Department and all its bureaus.

Mr. Sheehan was born in Wallingford, Connecticut, June 28, 1927. He was graduated from the Choate School in Wallingford in 1945. After serving in the U. S. Army in Guam and China, he entered Brown University, graduating in 1951. In 1957 -- under a fellowship financed by the Ford Foundation -- he did a year's graduate work in Foreign Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University.

Before joining the Treasury, Mr. Sheehan was a reporter and editor for the Associated Press in Washington; New York City; Newark, New Jersey; and New Haven, Connecticut. He began his newspaper career as a reporter on the Meriden (Conn.) Record and later worked as a reporter and editor for the Waterbury (Conn.) Republican, which he left to join the Associated Press.

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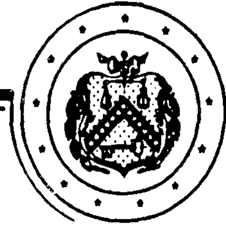
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, January 31, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated November 4, 1965, and the other series to be dated February 3, 1966, which were offered on January 26, 1966, were opened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, 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 5, 1966		182-day Treasury bills maturing August 4, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.835	4.609%	97.615	4.718%
Low	98.822	4.680%	97.584	4.779%
Average	98.828	4.638% 1/	97.604	4.740% 1/

72% of the amount of 91-day bills bid for at the low price was accepted
24% 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	$ 11,326,000	$ 11,326,000	$ 32,031,000	$ 32,031,000
New York	1,545,344,000	858,144,000	1,157,214,000	622,414,000
Philadelphia	27,696,000	15,696,000	14,212,000	6,212,000
Cleveland	23,667,000	23,667,000	44,276,000	44,276,000
Richmond	9,987,000	9,987,000	4,260,000	4,260,000
Atlanta	47,687,000	37,687,000	36,678,000	36,678,000
Chicago	262,259,000	144,971,000	235,676,000	110,674,000
St. Louis	58,403,000	49,403,000	22,668,000	17,168,000
Minneapolis	18,726,000	18,726,000	10,273,000	10,273,000
Kansas City	27,507,000	27,507,000	15,150,000	15,150,000
Dallas	29,751,000	26,471,000	12,632,000	12,632,000
San Francisco	82,821,000	77,681,000	88,326,000	88,326,000
TOTALS	$2,145,174,000	$1,301,266,000 a/	$1,673,396,000	$1,000,094,000 b/

a/ Includes $249,373,000 noncompetitive tenders accepted at the average price of 98.828
b/ Includes $110,843,000 noncompetitive tenders accepted at the average price of 97.604
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.76% for the 91-day bills, and 4.92% for the 182-day bills.

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