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JUN 1 5 1972

TREASURY DEPARTMENT

United States Savings Bonds Issued and Redeemed Through January 31, 1966
(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	29,445	75	.25
Series J and K - 1952 - 1953	864	833	32	3.70
UNMATURED				
Series E: 3/				
1941	1,851	1,596	255	13.78
1942	8,175	7,074	1,101	13.47
1943	13,156	11,416	1,740	13.23
1944	15,340	13,189	2,151	14.02
1945	12,031	10,128	1,902	15,81
1946	5,422	4,343	1,078	19.88
1947	5,119	3,935	1,184	23.13
1948	5,281	3,964	1,318	24.96
1949	5,205	3,825	1,380	26.51
1950	4,546	3,275	1,270	27.94
1951	3,936	2,834	1,102	27.98
1952	4,121	2,929	1,191	28.90
1953	4,697	3,223	1,474	31.38
1954	4,779	3,169	1,610	33.69
1955	4,972	3,174	1,799	36.18
1956	4,776	2,950	1,825	38.21
1957	4,476	2,709	1,767	39.48
1958	4,335	2,491	1,844	42.54
1959	4,057	2,304	1,753	43.21
1960	4,049	2,172	1,877	46.36
1961	4,070	2,037	2,034	49.98
1962	3,917	1,868	2,049	52.31
1963	4,347	1,834	2,513	57.81
1964	4,242	1,648	2,594	61.15
1965	3,753	931	2,822	75.19
Unclassified	408	546	-137	-
Total Series E	141,058	99,561	41,497	29.42
Series H (1952 - Jan. 1957) 3/	4,238	2,049	2,189	51.65
H (Feb. 1957 - 1965)	6,585	1,007	5,578	84.71
Total Series H	10.823	3,057	7,767	71.76
Total Series E and H	151,881	102,618	49,263	32.44
Series J and K (1954 - 1957)	2,872	1,817	4/ 1,055	36.73
All Series: Total matured	35,388	35,271	117	.33
All Series: Total unmatured	154,753	104,435	50,319	32.52
All Series: Grand Total	190,141	139,706	50,436	26.53

1/ Includes accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.
4/ Includes matured bonds which have not been presented for redemption.

BUREAU OF THE PUBLIC DEBT

United States Savings Bonds Issued and Redeemed Through February 28, 1966
(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	29,446	74	.25
Series J and K - 1952 - 1953	864	837	28	3.24
UNMATURED				
Series E: 3/				
1941	1,852	1,598	254	13.71
1942	8,177	7,079	1,098	13.43
1943	13,160	11,425	1,735	13.18
1944	15,346	13,201	2,146	13.98
1945	12,034	10,141	1,893	15.73
1946	5,425	4,350	1,075	19.82
1947	5,123	3,941	1,182	23.07
1948	5,285	3,970	1,315	24.88
1949	5,209	3,832	1,377	26.44
1950	4,549	3,281	1,268	27.87
1951	3,939	2,839	1,100	27.93
1952	4,127	2,935	1,191	28.86
1953	4,702	3,231	1,471	31.28
1954	4,784	3,178	1,605	33.55
1955	4,978	3,188	1,790	35.96
1956	4,781	2,960	1,822	38.11
1957	4,484	2,716	1,768	39.43
1958	4,341	2,496	1,844	42.48
1959	4,063	2,309	1,753	43.15
1960	4,055	2,177	1,878	46.31
1961	4,077	2,043	2,033	49.87
1962	3,923	1,875	2,048	52.20
1963	4,354	1,843	2,511	57.67
1964	4,249	1,663	2,586	60.86
1965	3,910	993	2,918	74.63
1966	2	-	2	100.00
Unclassified	571	682	-111	
Total Series E	141,499	99,947	41,552	29.37
Series H (1952 - Jan. 1957) 3/	3,670	1,882	1,788	48.72
H (Feb. 1957 - 1966)	7,196	1,222	5,974	83.02
Total Series H	10,866	3,104	7,762	71.43
Total Series E and H	152,366	103,052	49,314	32.37
Series J and K (1954 - 1957)	2,873	1,852	4/ 1,021	35.54
All Series — Total matured	35,388	35,277	111	.31
All Series — Total unmatured	155,239	104,904	50,335	32.42
All Series — Grand Total	190,627	140,180	50,447	26.46

1/ Includes accrued discount.
2/ Current redemption value.
3/ At option of owner bonds may be held and will earn interest for additional periods after original maturity dates.
4/ Includes matured bonds which have not been presented for redemption.

BUREAU OF THE PUBLIC DEBT

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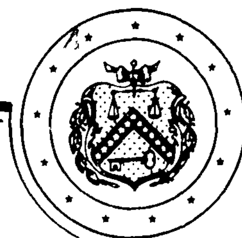
BUREAU OF THE PUBLIC DEBT

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 1, 1966

FOR RELEASE A.M. NEWSPAPERS
WEDNESDAY, FEBRUARY 2, 1966

TREASURY DEPARTMENT ADOPTS NEW GUIDELINES FOR APPRAISING VALUE OF IMPORTED RUBBER FOOTWEAR

The Treasury Department today announced approval of new guidelines for appraising the value of imported rubber-soled footwear.

The new guidelines will have the effect of lowering the actual duties paid on such footwear.

Customs appraising officers are being instructed to put the new guidelines into effect immediately.

Approval of the new guidelines clears the way for the U. S. Tariff Commission to proceed with its own investigation of the basis of customs valuation known as the American Selling Price method. The commission's findings are to be transmitted later to President Johnson and to Christian A. Herter, the President's Special Representative for trade Negotiations.

The new guidelines shift the appraisement of imported rubber-soled footwear from the level reflecting the highest price of a similar domestic product to the lowest price of a similar domestic product. The criteria already are in effect for other imports (knit gloves, canned clams and certain benzenoid chemicals) where the American Selling Price method must be used for customs valuation purposes.

Rubber-soled footwear imports have a value of about $17 million per year currently. The other imports covered by the American Selling Price valuation method have a value of approximately $97 million annually.

The Treasury's action came after consultation with affected individuals and organizations, and full consideration of all relevant data, views and arguments by interested parties. The guidelines, in proposed form, were published in the Federal Register of August 19, 1965. These guidelines now have been adopted by the Treasury, and will be published soon in the Federal Register as the final regulations.

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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 February 10, 1966 (XVI), in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 10, 1966 (XVII). Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, February 2, 1966
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(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 February 10, 1966 (3), in the amount of $2,200,935,000 (4), as follows:

91 (5) -day bills (to maturity date) to be issued February 10, 1966 (6), in the amount of $1,300,000,000 (7), or thereabouts, representing an additional amount of bills dated November 12, 1965 (8), and to mature May 12, 1966 (9), originally issued in the amount of $ 1,000,027,000 (10), the additional and original bills to be freely interchangeable.

182 (11) -day bills, for $ 1,000,000,000 (12), or thereabouts, to be dated February 10, 1966 (13), and to mature August 11, 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, February 7, 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

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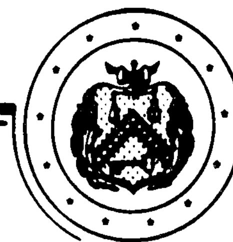
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 2, 1966

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.

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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 February 10, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 10, 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.

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will call for examination of many other areas in which lawyers have special skills and experience. If we use our knowledge and insights constructively in the improvement of the tax system and the institutions which that system has fostered, then we will play our part in shaping the Great Society. The problems are difficult and complex and encrusted with history -- but this is only to say that they are worthy of your talents.

then were just beginning to flourish and economic conditions and institutions were different. One can properly doubt that the knowledge available back in 1942 was somehow sufficient to produce decisions that could stand as immutably wise for all time. The Treasury and other Departments involved thus welcome a serious, objective examination by business, labor, and others concerned, such as the actuarial profession, of the present pattern and operation of pension plans and of the Cabinet Report recommendations. We are hopeful that out of this dialogue we can fashion useful improvements in the present system in keeping with the goals I have stated and the fulfillment of the function of these plans in providing supplemental retirement security to the labor force.

The improvement of our tax system which President Johnson seeks

slowly but the need for a constructive dialogue is now recognized by those concerned with this area.

Basically, the goals are to facilitate an increase in the number of employees who will receive benefits from private pension plans, to provide greater assurance that the promised benefits
to make these plans as compatable as possible with a freely mobile labor
will materialize and be paid, and to make certain that the funds will be administered solely in behalf of particpating employees, and to eliminate those special tax preferences associated with these plans which do not meet the test of efficiency or fairness.

Essentially the rules governing the development of private pension plans, set forth as qualifications for eligibility for special tax treatment, have not changed since 1942. Such basic problems as the vesting of pension benefits, the funding of benefits, the portability of benefits, the coverage of employees, and the integration of these plans with the Social Security system are today governed by concepts and patterns developed a quarter of a century ago. Pension plans

private foundation is in large part the handiwork of the tax bar, in its use as a tool for family and business planning of tax provisions designed to foster general philanthropy. Society can properly call upon us to recognize the wider concerns involved and to fashion our handiwork into a genuinely philanthropic instrument not tainted by the present defects and abuses.

Let me say a word about another social instrument that also owes much of its widespread presence to the tax law. This is the private pension plan. A Cabinet Committee on Corporate Pension Funds prepared a report of recommendations to improve the basic soundness and equitable character of these private plans. In January 1965, the President made the Report public in the interest of public examination and discussion. The discussion developed

The Treasury Department in its Report to the Congress on Private Foundations addressed itself to these difficult problems and made specific recommendations. [(In examining the responses submitted to the House Ways and Means Committee respecting those recommendations, one is often struck by the wide variation between the comments from heads of major foundations recognizing the concerns I have described and the need for remedial action and the comments under legal letterheads seeking only defensive response in protection of the status quo -- not to be in printed version.)] I urge your careful study of these recommendations. For here also legal ingenuity should be equal to the task of removing the present clouds that hang over the private foundation. And indeed tax lawyers have a real responsibility in this regard. [For] The proliferation of the

be freed from them -- to seek ways whereby the private foundation can shed the activities which the donor's financial history before its organization or his present financial concerns thrust upon the foundation.

Nor should we look only at involvements with a financial cloak. Again, I have not found any responsible trustee who has not recognized the need to maintain a balance between the influence of those donors desirous of playing a role in the philanthrophic spending of the funds which used to be theirs but legally are not longer their private concern and the claims of society that philanthropic funds be controlled by trustees with a fiduciary concern and a degree of detachment and outlook that is not submerged in submissive to the donors.

continuing financial benefits to their donors and trustees.

I doubt there is anyone who looks upon these matters as positive benefits to philanthropy or society. I have not found a responsible foundation trustee who, funding the foundation on its organization with a diversified investment portfolio, would switch that portfolio into the ownership of a business corporation or a minority interest in a family corporation or unimproved land or only non-dividend paying growth stocks. The present involvement of foundations in these investments and activities is thus only an accommodation to their donors, be it a reflection of the donor's past activities or as a response to a present desire of the donor. But the involvement is hardly an inherent philanthropic virtue.

Our task is not to perpetuate these involvements of private foundation, but to seek ways in which foundation philanthropy can

upon the Congress "to deal with abuses of tax-exempt private foundations." Here is a fitting example of what we are discussing.

We are all well aware that private foundations have been under a cloud for many years, despite the fundamental and strong attachment Americans hold for private philanthropy. Of all the areas in which that philanthropy can be exercised -- in private education, in religion, in community programs -- basically only the area of the private foundation stands suspect. And this is because some private foundations have not been able to separate their philanthropy from activities and relationships that have nothing to do with philanthropy. These are the present involvement of foundations in business relationships and the maintenance of arrangements and transactions which give the appearance and often the actuality of

yourself -- because of the way his income is obtained. Each day you apply provisions of the tax law that cannot be reconciled with a proper measure of net income but are the means to some social or economic end or the way in which some activities -- and thereby some taxpayers -- are preferred over others. Given the President's desire to reform the tax system and his criteria, which of the provisions THAT you apply each day would you keep, discard or modify? The President has asked the Secretary of the Treasury to develop recommendations for appropriate reform of the tax system. As you bend each intricate part and detail of the Tax Code to some particular task, how would you answer the question whether that provision really has any reason to exist in a proper tax code?

The President also made a specific IMMEDIATE recommendation and called

These interlocking pulls and counterpulls and the constant need to seek the right balance make the task of tax reform difficult. But the President's words underline that the goal can be clearly perceived and there are standards against which the present provisions can be tested. One is that of achieving a greater degree of horizontal tax equity than we have today: "great variations of tax liability among persons with equivalent income or wealth must be reduced." The other is that special tax preferences must -- just as direct governmental expenditures -- justify their current existence: "tax benefits . . . like all other activities of Government, must stand up to the test of efficiency and fairness."

Here indeed is a grand challenge to lawyers. Each day you apply the many provisions of the tax system that result in a lower tax for this client as compared with other clients -- ~~and indeed~~ RARELY

extends through direct expenditures are periodically reviewed and often altered in the budget-appropriation process, but too little attention is given to reviewing particular tax benefits. These benefits, like all other activities of Government, must stand up to the tests of efficienty and fairness."

These themes of equity and special tax preferences are interjoined, and with simplification form the interlocking facets on which the problems of structural tax reform are rooted. For the determination from time to time of how the balance among these three factors should be struck will decide the nature of our tax system. If we stress special tax preferences and the use of the tax system through them to accomplish on a wide scale benefits for particular taxpayers or various non-tax goals, then the price must be paid through a lessening in the equitable distribution of the tax load and in increased complexity. If we push simplification too far at the expense of fairness, then also the equity of the tax system suffers. But if we push the demands of equity to refinement after refinement, then complexity triumphs. And if we discard each and every tax preference, then certain needed values in our society can be lost.

to explore what may be done to achieve tax simplification. Society can then weigh for itself the values gained and lost, and determine the extent to which the initial premise is valid. But unless lawyers assist in providing the public with this means to an intelligent choice, much of the responsibility for continued tax complexity will be laid at our door.

As President Johnson pointed out, simplification is only one of the major goals to be achieved in seeking improvement of our tax system. The Economic Message stressed two additional themes -- equity and the review of special tax preferences:

"Another aim must be a more equitable distribution of the tax load. The great variation of tax liability among persons with equivalent income or wealth must be reduced. Further, when tax reduction once again becomes feasible, particular attention must be given to relief of those at or near poverty levels of income.

"Finally, we must review special tax preferences. In a fully employed economy, special tax benefits to stimulate some activities or investments mean that we will have less of other activities. Benefits that the Governm

President Johnson in his Economic Message stressed the same theme, stating:

".... improvement of our tax system is a continuing need which will concern this Administration and which deserves the support of all Americans. ..... One major goal must be simplification of the tax law."

Here, indeed, is a task in which lawyers can play an important role. For the achievement of tax simplification requires a high measure of sheer ingenuity mixed with an intelligent weighing of what is valuable complexity proper to achieve needed fairness and what is expendable refinement and detail. We must recognize that society is willing to tolerate considerable tax complexity in the areas where lawyers are needed anyway -- corporate organizations and reorganizations, partnerships, trusts and the like. But, in turn, society can properly ask that the lawyers join in seeking solutions to the complexities that now seriously complicate the tax system for the average taxpayer -- the retirement income credit, the standard and itemized deductions, and other matters similar to those referred to by Chairman Mills. The lawyers are being asked to approach the task with a willingness to assume

makes little net contribution to either equity or any other social goal

initially that much of this complexity ~~is needless~~ and, given that premise,

A third plan would reduce the rates by 10 percent, and even more in the upper ranges, and then allow no standard deduction and then allow itemized deductions only above a 10 percent of gross income level. This plan could be aimed at achieving a revenue balance or only as little loss as would be needed to make finer adjustments among the different taxpayers involved in the restructuring.

Chairman Mills has called on the Congressional and Treasury tax staffs to explore these various suggestions and the exploration is under way.

Chairman Long, of the Senate Finance Committee, is also interested in tax simplification, and, indeed, his approach, like that of Mr. Mills, recognizes the complications now involved in our system of personal deductions. Senator Long's proposal goes beyond these deductions, and would provide substantially lower effective tax rates for those who optionally forego all tax preferences, including most of the personal deductions. The Treasury is also studying the implications and possibilities of this approach. The important factor, of course, is that the two leaders in the tax field in the respective branches of Congress are both publicly calling attention to the need for tax simplification.

simplification. Chairman Mills, in a recent and significant article, in the December 1965 issue of Nation's Business, called for greater emphasis on simplifying the tax laws. His suggestions were specific. He pointed to the retirement income credit, to the averaging provision, and to the sick pay exclusion as deserving re-examination in the interest of simplifying the computations and rules they now entail.

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Insert D - p. 10.

No para:

If it can be handled in a manner that effectively stabilizes the economy, greater freedom of private action is possible. Businessmen can then plan in terms of what new activities will best meet the requirements of market efficiency in a high employment economy. This freedom of action becomes narrowed if, because of excessive instability in the economy, they must design cut-back plans to weather the instabilities.

At the same time we must improve our tools of economic forecasting and economic analysis, so that we know the degree of tax adjustment to seek and when to do so. Thus, we need to know more about the impact OF THAT CHANGE on labor and production bottlenecks, and hence on price levels, (as the unemployment rate) drops below 4 percent. We ALSO must learn more about the conditions governing the sustainability of high levels of business investment and the responsiveness of that investment to changes in the tax structure.

All of this is the essence of fiscal responsibility.

It means that Government seeks to handle its part of the economy so that the private sector can make its decisions intelligently in the light of responsible governmental action.

The Federal budget, its expenditures and its receipts, is the largest factor in our economy directed by a single unit. Unless it is prudently managed, stability in private decisions becomes impossible. ~~The essence of the freedom of private action lies in prudent and responsive fiscal action by Government.~~ INSERT D

So far I have discussed tax policy in terms of the "new economics" and its current tasks. But you are lawyers and properly also ask what part of the current tax scene calls for your skills. Let me begin with tax

If we can through consideration of these substantive questions obtain a consensus on the relevant criteria and appropriate techniques, then our Government will be in a better position to act quickly if ever the need for action arrives. We could thus reserve our searching debates over tax policy for the occasions when we are seeking permanent, long-run revisions of the tax system, as the rate reductions of the 1964 Act.

The President in his Economic Report for 1966 stressed the need for adequate guidelines for temporary tax changes:

"We must always be prepared to meet quickly any problems that arise in the path of continued, stable economic growth, whether the problems call for fiscal stimulus or fiscal restraint. Background tax studies by both the Congress and Executive Branch should therefore be adequate to permit quick decisions and prompt action to accommodate short-run cyclical changes. If quick action is ever needed, we should not have to begin a long debate on what the changes in the taxes should be."

Hearings held at this time by a Committee of Congress, involving expert witnesses and representatives of interested groups, could be helpful in developing the Congressional background tax studies that are desirable.

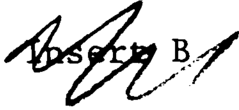
tax bracket; or is it an equal percentage increase in <u>after-tax income</u> for all taxpayers? If the need is for a temporary upward adjustment, which of these approaches when phrased in terms of tax increases is most "neutral"? Should the answer be the same for upward as for downward adjustment? In sum -- for other questions can also be asked e.g., how should corporate taxes be changed relative to the individual income tax? -- what are the guidelines for framing temporary tax changes?

Our need is not for the adoption of special Congressional procedures or standby measures to ensure that Presidential requests for temporary tax rate changes will be acted upon promptly. The Congress has demonstrated -- in the Excise Tax Reduction of 1965 and now in its prompt consideration of the President's present program -- that measures framed responsibly and properly balanced will obtain quick and efficient Congressional consideration if that is required under the circumstances. Our need instead is for a general understanding of the principles to be followed in structuring these temporary measures. In urging tax flexibility, some of the economists have unfortunately placed far too much stress on Congressional procedures and far too little on the fiscal principles and techniques that should determine the <u>substantive</u> content of these temporary tax rate proposals.

Our studies of the tax system therefore must be designed to yield further insights into the adjustments that are proper when we require short-range, temporary changes in income tax rates, up or down. If we need such quick temporary adjustments, it seems desirable to aim for an approach that leaves the distribution of the tax burden between the various income brackets essentially unchanged Over the long run, of course, we must concern ourselves with the problem of equity in the distribution of the tax burden, for this lies at the heart of any tax system. It is a difficult problem and involves deep-seated feelings, so that important changes are usually attended by lengthy Congressional consideration and public debate. But when we are dealing with a short-term change in tax levels to meet current economic conditions, we do not have the time for such debate. What is called for, therefore, is an approach that is "neutral" in its effect upon the existing structure.

"Neutrality" when applied to the individual income tax means no change in the present progressivity of the rate structure. What type of temporary downward adjustment to prevent a faltering of the economy best achieves this neutrality? Is it a reduction of an equal percentage in the final tax liability for all taxpayers; or a reduction of an equal percentage of taxable income before tax for all taxpayers, which is the same as a reduction of the same number of percentage points in each

and that closely reflects the cash budget and national income account budgets which are both close to balance. But we can never be certain about future economic conditions, and the uncertainty is far greater than ever this year because of Southeast Asia and its uncertainties.

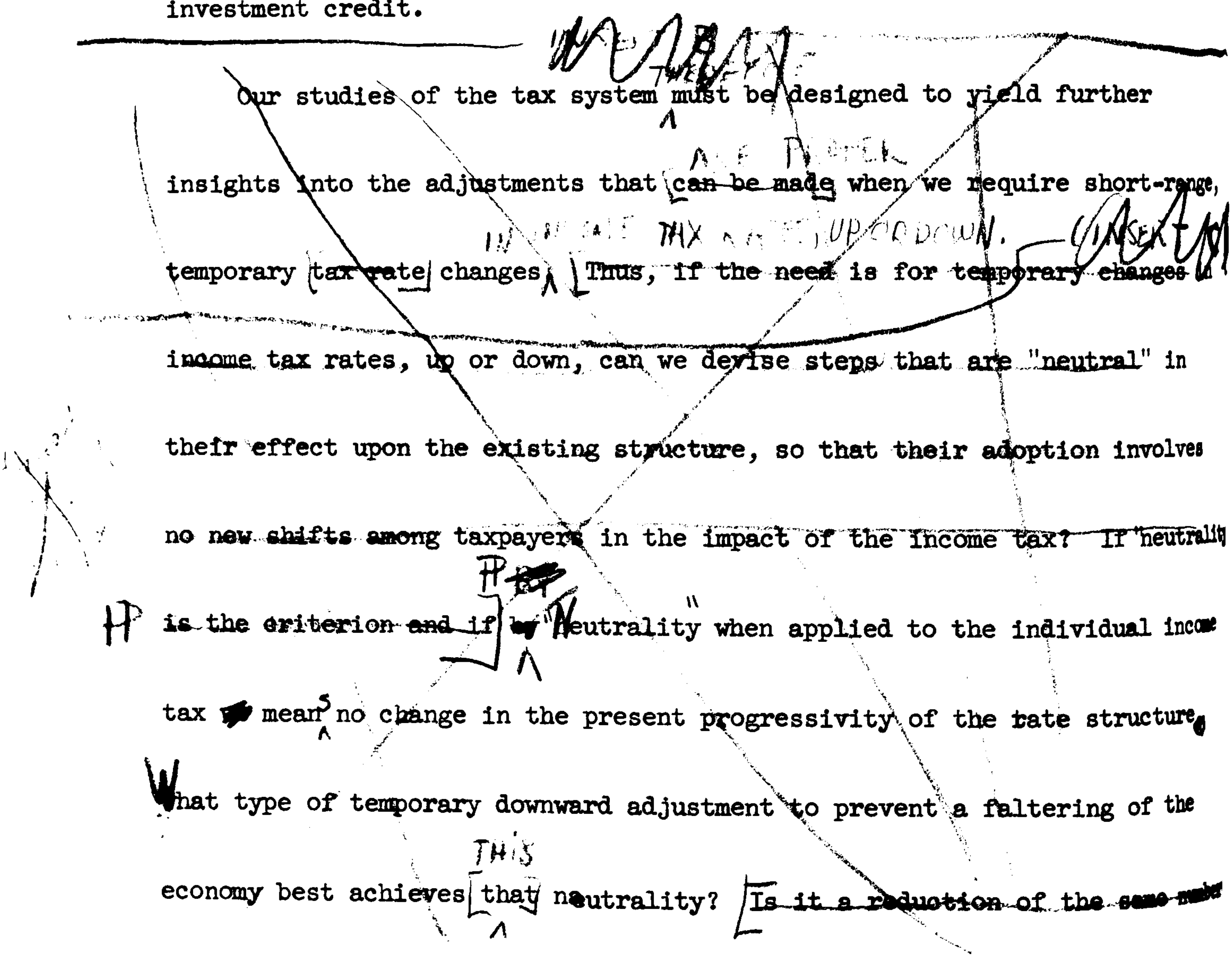


The President in his Economic Report buttressed this program by clearly indicating that special tax reduction measures are incompatible with the need for fiscal restraint. He said:

> "Against a background calling for fiscal restraint, I cannot this year endorse any specific legislative measure, however meritorious, involving significant net tax reductions. The danger of inflation from increased demand would be too great, and any special tax reduction now would postpone the time when we can achieve a meaningful general tax reduction."

This current tax program is directed at immediate budgetary problems. It achieves an administrative budget for fiscal year 1967 that has a deficit of only $1.8 billion -- instead of a deficit of over $ 6 bil

These are moderate steps, each suited to the economic situation. Each represents a sound addition in their permanent structural effect. graduated withholding, corporate current tax payment and estimated payment of the self-employment taxes -- all sound additions. These recommendations do not involve any consideration of the income or corporate tax rates or other factors affecting final tax liabilities, such as the investment credit.



Our studies of the tax system must be designed to yield further insights into the adjustments that can be made when we require short-range, temporary tax rate changes. Thus, if the need is for temporary changes in income tax rates, up or down, can we devise steps that are "neutral" in their effect upon the existing structure, so that their adoption involves no new shifts among taxpayers in the impact of the income tax? If neutrality is the criterion and if by "neutrality when applied to the individual income tax we mean no change in the present progressivity of the rate structure, what type of temporary downward adjustment to prevent a faltering of the economy best achieves that neutrality? Is it a reduction of the same number

6-A.

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remain flexible and responsible. And just as tax policy was called upon by the "new economics" to provide the needed fiscal stimulus in the past, so again it is called upon but this time to produce the needed measure of restraint. But now the steps are more delicate, for the balance is precarious with the future so uncertain. We need at this time no major changes but only adjustments in the tax structure that permit shifts in timing without altering fundamental policies -- and shifts that can be accomplished quickly.

We are beginning to see how tax policy can, under our form of government, be used flexibly and promptly.

The President's tax program, now before Congress, fits this prescription. It calls for temporary changes in the schedule of excise tax reductions for automobiles and telephone service. It proposes an acceleration of the scheduled transition to current payments for our larger corporations. It recommends action now on a previously studied graduated withholding system for individual taxpayers, and at a time when the economic effect

the two narrows rapidly. The present concern is not with economic plateaus or a faltering economy, but instead the need to reduce the risks of inflation. And all of this comes at a time when a thriving peacetime economy has been suddenly saddled with a sharp rise in military expenditures for a war the nature and duration of which cannot be predicted.

Using the same "new economics" but recognizing the changed conditions, the need now is for fiscal measures to tone down stimulus to private spending.

The change from strong fiscal stimulus to a measure of fiscal restraint -- from a willingness to accept temporary deficits to a desire to maintain a budget within the range marked balanced -- does not indicate any error in past policy. Rather it marks the success of tha policy , and a recognition that fiscal policy must

of faster growth and increased revenues has come true.

We have thus moved into the range of a FULL employment economy. Do we now turn to the economists to say: "Your prescription was fine, these budget deficits work wonders, let's have more of this stuff." If we do, we will be sadly mistaken. (INSERT A) [For our bold economists -- still practicing the new economics -- are now cautious men. They will tell us that there are now more matters to be more carefully watched than simply the upward climb of GNP. We must maintain price stability, we must not let a fine performance by private investment accelerate wildly into an unsustainable investment boom, we must keep our costs competitive in world markets so that we can achieve balance-of-payments equilibrium.]

There is no longer a shortage of demand, but rather the beginnings of a pressure of demand upon supply as the gap between

Insert A

Throughout the past five years, those who disagreed with the tax reduction program have said we should follow instead a restrictive course to maintain price stability, to prevent an unsustainable boom and to prevent deterioration of our balance of payments position. History has proven the error of this viewpoint and that the wise course was to reject it in favor of an expansionary program. But clearly it was never denied that at some point an expansionary program may not be suited to prevailing economic conditions. Today our economists tell us that an expansionary policy is no longer appropriate.

The "new economics" called for a reduction in the weight of the tax system and a continuation of temporary deficits, rather than a preservation of existing tax rates and an immediate endeavor to balance the budget. Since there was a high level of unemployment and large unused capacity, the "new economics" demanded large and bold measures -- indeed, the concern of many economists was that public unfamiliarity with the new measures and any resulting timidity would yield only cautious steps that could well have meant failure. But the steps were large and bold -- the reduction in the income tax through rate decreases, THE investment credit and depreciation reform came to 20 percent of tax liabilities. And the economy responded. All that the economists predicted -- in their talk of the multiplier effect of tax reduction, of the need for eliminating fiscal drag of the adverse effect of a full employment surplus -- in the way

of broad policy impact than in any comparable period. And we were already starting work on the next tax reduction and reform measure, which culminated in the Excise Tax Reduction Act of 1965.

But this year the scene has changed -- the Congress is now engaged in considering a revenue act that, in fiscal YEAR 1967, will increase revenues by over $4.8 billion.

And yet, though the scenes have markedly altered in two years, there are strong links between them. The current picture, indeed, has a logical relationship to the earlier one. Throughout the past five years, our fiscal policy has concentrated on ~~one~~ BASIC goal, that of eliminating the gap between our actual economic position and our potential position. Tax policy, for the first time in our history, was asked to stimulate investment and expand consumer demand through measures that reduced tax rates despite a budget deficit.

TREASURY DEPARTMENT
Washington

FOR RELEASE P.M. NEWSPAPERS
THURSDAY, FEBRUARY 3, 1966

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ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SECTION OF TAXATION
NEW YORK STATE BAR ASSOCIATION
THRUSDAY, FEBRUARY 3, 1966, 12:30 P.M.,

THE CURRENT TAX SCENE

I had the pleasure of addressing this group two years ago - January, 1964 - and my title then was "The Current Tax Scene." My title today is the same, but the speech cannot be the same. Economic conditions, national goals and international problems are never static. And so my talk today - on The Current Tax Scene - describes a different panorama from that of two years ago.

Then we were in the [concluding] FINAL stages of the largest tax reduction bill in our history. Through the Revenue Act of 1962, depreciation reform, and the Revenue Act of 1964, we were also concluding a revision of the income tax that in the few years involved had produced more structural changes

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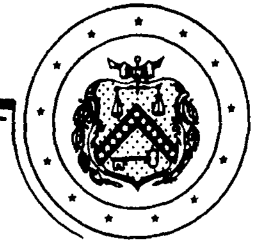
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 2, 1966

MEMORANDUM FOR THE PRESS:

Assistant Secretary of the Treasury Stanley S. Surrey's remarks before the Section of Taxation, New York State Bar Association, Thursday, February 3, 1966, 12:30 P.M., will be read by Mr. Mitchell Rogovin, Chief Counsel, Internal Revenue Service.

Text attached.

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But this year the scene has changed -- the Congress is now engaged in considering a revenue act that, in fiscal year 1967, will increase revenues by over $4.8 billion.

And yet, though the scenes have markedly altered in two years, there are strong links between them. The current picture, indeed, has a logical relationship to the earlier one. Throughout the past five years, our fiscal policy has concentrated on a basic goal, that of eliminating the gap between

our actual economic position and our potential position. Tax policy, for the first time in our history, was asked to stimulate investment and expand consumer demand through measures that reduced tax rates despite a budget deficit. The "new economics" called for a reduction in the weight of the tax system and a continuation of temporary deficits, rather than a preservation of existing tax rates and an immediate endeavor to balance the budget. Since there was a high level of unemployment and large unused capacity, the "new economics" demanded large and bold measures -- indeed, the concern of many economists was that public unfamiliarity with the new measures and any resulting timidity would yield only cautious steps that could well have meant failure. But the steps were large and bold -- the reduction in the income tax through rate decreases, the investment credit and depreciation reform came to 20 percent of tax liabilities. And the economy responded. All that the economists predicted in the way of faster growth and increased revenues has come true.

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There is no longer a shortage of demand, but rather the beginnings of a pressure of demand upon supply as the gap between the two narrows rapidly. The present concern is not with economic plateaus or a faltering economy, but instead the need is to reduce the risk of inflationary pressures. And all of this comes at a time when a thriving peacetime economy has been suddenly saddled with a sharp rise in military expenditures for hostilities the nature and duration of which cannot be predicted.

Using the same "new economics" but recognizing the changed conditions, the need now is to keep total demand within the bounds of our productive capacity and thereby maintain essential price stability.

The change from strong fiscal stimulus to a measure of fiscal restraint -- from a willingness to accept temporary deficits to a desire to maintain a budget within the range marked balanced -- does not indicate any error in past policy. Rather it marks the success of that policy, and a recognition that fiscal policy must remain flexible and responsible. And just as tax policy was called upon by the "new economics" to provide the needed fiscal stimulus in the past, so again it is called upon but this time to produce the needed measure of restraint. But now the steps must be finely tuned, for the economic balance is more sensitive, and the future is uncertain.

We need, at this particular time, no major changes. We need only adjustments in the tax structure that permit shifts in timing without altering fundamental policies or even changing income tax liabilities -- and shifts that can be accomplished quickly. We are beginning to see how tax policy can, under our form of government, be used flexibly and promptly.

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The President in his Economic Report buttressed this program by clearly indicating that special tax reduction measures are incompatible with the need for fiscal restraint. He said:

> "Against a background calling for fiscal restraint, I cannot this year endorse any specific legislative measure, however meritorious, involving significant net tax reductions. The danger of inflation from increased demand would be too great, and any special tax reduction now would postpone the time when we can achieve a meaningful general tax reduction."

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So far I have discussed tax policy in terms of the "new economics" and its current tasks. But you are lawyers and properly also ask what part of the current tax scene calls for your skills. Let me begin with tax simplification. Chairman Mills, in a recent and significant article, in the December 1965 issue of Nation's Business, called for greater emphasis on simplifying the tax laws. His suggestions were specific. He pointed to the retirement income credit, to the averaging provision, and to the sick pay exclusion as deserving re-examination in the interest of simplifying the computations and rules they now entail.

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Chairman Mills has called on the Congressional and Treasury tax staffs to explore these various suggestions and the exploration is under way.

Chairman Long, of the Senate Finance Committee, is also interested in tax simplification, and, indeed, his approach, like that of Mr. Mills, recognizes the complications now involved in our system of personal deductions. Senator Long's proposal goes beyond these deductions, and would provide substantially lower effective tax rates for those who optionally forego all tax preferences, including most of the personal deductions. The Treasury is also studying the implications and possibilities of this approach. The important factor, of course, is that the two leaders in the tax field in the respective branches of Congress are both publicly calling attention to the need for tax simplification.

President Johnson in his Economic Report stressed the same theme, stating:

> "....improvement of our tax system is a continuing need which will concern this Administration and which deserves the support of all Americans .... One major goal must be simplification of the tax law."

Here, indeed, is a task in which lawyers can play an important role. The achievement of tax simplification requires a high measure of sheer ingenuity mixed with an intelligent weighing of what is valuable complexity proper to achieve needed fairness and what is expendable refinement and detail. We must recognize that society is willing to tolerate considerable tax complexity in the areas where lawyers are needed anyway -- corporate organizations and reorganizations, partnerships, trusts and the like. But, in turn, society can properly ask that the lawyers join in seeking solutions to the complexities that now seriously complicate the tax system for the average taxpayer -- the retirement income credit, the standard and itemized deductions, and other matters similar to those referred to by Chairman Mills. The lawyers are being asked to approach the task with a willingness to assume initially that much of this complexity makes little net contribution to either equity or any other social goal and, given that premise, to explore what may be done to achieve tax simplification. Society can then weigh the values gained and lost, and determine the extent to which the initial premise is valid. But unless lawyers assist in providing the public with this means to an intelligent choice, much of the responsibility for continued tax complexity will be laid at our door.

As President Johnson pointed out, simplification is only one of the major goals to be achieved in seeking improvement of our tax system. His Economic Report stressed two additional themes -- equity and the review of special tax preferences:

> "Another aim must be a more equitable distribution of the tax load. The great variation of tax liability among persons with equivalent income or wealth must be reduced. Further, when tax reduction once again becomes feasible, particular attention must be given to relief of those at or near poverty levels of income.
>
> "Finally, we must review special tax perferences. In a fully employed economy, special tax benefits to stimulate some activities or investments mean that we will have less of other activities. Benefits that the Government extends through direct expenditures are periodically reviewed and often altered in the budget-appropriation process, but too little attention is given to

> reviewing particular tax benefits. These benefits, like all other activities of Government, must stand up to the tests of efficiency and fairness."

The determination from time to time of how the balance among three factors -- equity, special tax preferences, and simplification -- should be struck will decide the nature of our tax system.

If we stress special tax preferences and through them the use of the tax system to accomplish on a wide-scale benefits for particular taxpayers or various non-tax goals, then the price must be paid through a lessening in the equitable distribution of the tax load and in increased complexity.

If we push simplification too far at the expense of fairness, then also the equity of the tax system suffers.

But if we push the demands of equity to refinement after refinement, then complexity triumphs. And if we discard each and every tax preference, then certain needed values in our society can be lost.

These interlocking pulls and counterpulls and the constant need to seek the right balance make the task of tax reform difficult. But the President's words underline that the goal can be clearly perceived and there are standards against which the present provisions can be tested. One is that of achieving a greater degree of horizontal tax equity than we have today: "great variations of tax liability among persons with equivalent income or wealth must be reduced." The other is that special tax preferences must -- just as direct governmental expenditures -- justify their current existence: "Tax benefits..... like all other activities of Government, must stand up to the test of efficiency and fairness."

Here indeed is a grand challenge to lawyers. Each day you apply the many provisions of the tax system that result in a lower tax for this client as compared with other clients -- but rarely yourself -- because of the way his income is obtained. Each day you apply provisions of the tax law that cannot be reconciled with a proper measure of net income but are the means to some social or economic end or the way in which some activities -- and thereby some taxpayers -- are preferred over others. Given the President's desire to reform the tax system and his criteria, which of the provisions that you apply each day would you keep, discard or modify? As you bend each intricate part and detail of the Tax Code to some particular task, how would you answer the question whether that provision really has any reason to exist in a proper tax code?

The President also made a specific immediate recommendation and called upon the Congress "to deal with abuses of tax-exempt private foundations." Here is a fitting example of what we are discussing.

We are all well aware that private foundations have been under a cloud for many years, despite the fundamental and strong attachment Americans hold for private philanthrophy. Of all the areas in which that philanthrophy can be exercised -- in private educational institutions, in religion, in community programs -- basically only the area of the private foundation stands suspect. And that is because a substantial number of private foundations have not been able to separate their philanthrophy from activities and relationships that have nothing to do with philanthrophy. Prominent among these aspects are their involvement in business relationships and their maintenance of arrangements and transactions which give the appearance and often the actuality of continuing financial benefits to their donors and trustees.

I doubt there is anyone who looks upon these matters as positive benefits to philanthrophy or society. I have not found a responsible foundation trustee who, finding a foundation with a diversified investment portfolio, would switch that portfolio into the ownership of a business corporation or a minority interest in a family corporation or unimproved land or only non-dividend paying growth stocks. The present involvement of foundations in these investments and activities is thus only an accommodation to their donors, be it a reflection of the donor's past activities or as a response to a present desire of the donor. But the involvement is hardly an inherent philanthropic virtue.

Our task is not to perpetuate these involvements of private foundations, but to seek ways in which foundation philanthrophy can be freed from them -- ways whereby the private foundation can shed the activities which the donor's financial history before its organization or his present financial concerns have thrust upon it.

Nor should we look only at foundation involvements with the financial affairs of their donors. Again, I have not found any responsible trustee who has not recognized the need to maintain a balance between the influence of those donors desirous of playing a role in the philanthropic spending of the funds which used to be theirs -- but legally are no longer their private concern -- and the claims of society that

philanthropic funds be controlled by trustees with a fiduciary regard and a degree of detachment and outlook that is not submerged in submissiveness to the donors.

The Treasury Department in its Report to the Congress on Private Foundations addressed itself to these difficult problems and made specific recommendations. I urge your careful study of these recommendations. For here also legal ingenuity should be equal to the task of removing the present clouds that hang over the private foundations. And indeed tax lawyers have a real responsibility in this regard. The proliferation of the private foundation is in large part the handiwork of the tax bar, in its use of tax provisions designed to foster general philanthrophy as a tool for family and business planning. Society can properly call upon us to recognize the wider concerns involved and to fashion our handiwork into a genuinely philanthropic instrument not tainted by the present defects and abuses.

Let me comment briefly about another social instrument that also owes much of its widespread presence to the tax law. This is the private pension plan. A Cabinet Committee on Corporate Pension Funds developed recommendations to improve the basic soundness and equitable character of these private plans. In January 1965, the President made this Report public in the interest of public examination and discussion. The discussion has developed slowly but the need for a constructive dialogue is now recognized by those concerned with this area.

Basically, the goals are to broaden the coverage of private pension plans to include a wider range of employees; to provide greater assurance that the pension benefits will materialize and be paid; to make these plans as compatible as possible with a freely mobile labor force; to make certain that the funds will be administered solely in behalf of participating employees, and to eliminate those special tax preferences associated with these plans which do not meet the test of efficiency or fairness.

Essentially the rules governing the development of private pension plans, set forth as qualifications for eligibility for special tax treatment, have not changed since 1942. Such basic problems as the vesting of pension benefits, the funding of benefits, the portability of benefits, the

coverage of employees, and the integration of these plans with the Social Security system are governed today by concepts and patterns developed a quarter of a century ago. Pension plans then were just beginning to flourish and economic conditions and institutions were different. One can properly doubt that the knowledge and experience available back in 1942 was sufficient to produce decisions that could stand as immutably wise for all time.

The Treasury and other Departments involved thus welcome a serious, objective examination by business, labor, and others concerned, such as the actuarial profession, of the present pattern and operation of pension plans and of the Cabinet Report recommendations. We are hopeful that out of this dialogue we can fashion useful improvements in the present system in keeping with the goals I have stated and the fulfillment of the function of these plans in providing supplemental retirement security to the labor force.

The reform of our tax system which President Johnson seeks will call for examination of many other areas in which lawyers have special skills and experience. If we use our knowledge and insights constructively in the improvement of the tax system and the institutions which that system has fostered, then we will play our part in shaping the Great Society. The problems are difficult and complex and encrusted with history -- but this is only to say that they are worthy of your talents.

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TREASURY DEPARTMENT
Washington

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
FEBRUARY 3, 1966
10:00 A.M.

Mr. Chairman and Members of the Joint Economic Committee:

We meet today in economic circumstances of rather different complexion from those of a year ago or any of the past several years. At home our work force, more productive than ever, is also more fully employed than at any time in nearly a decade. Adding to the increasing demands of our own people for more of the fruits of our highly productive economy, is our firm commitment to the defense of freedom of Viet Nam, which places a high-priority claim on our human and material resources. Rather than stimulate the economy further, it is now the broad task of Government economic policy to take in some sail. We have become more concerned with economic overheating than with the shortfalls of demand that marked most recent years.

Our international economic position has taken a decided turn for the better -- and we expect that it will do still better in this current year. Yet here, too, our progress in meeting older problems has tended to uncover new ones -- in

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this case the need to move ahead with improved machinery to cope with the international financial problems we will face in the future.

Economic Accomplishments of 1965

With the President's Economic Report now before you, there is no need to recount in detail the economic accomplishments of 1965. A few highlights will serve to make the point. In this fifth full year of business expansion, real output gained 5-1/2%. During the year, industrial production climbed 7.4%, about 2.5 million more workers found employment, and the unemployment rate fell from 5.0% at the end of 1964 to just 4.1% of the civilian labor force at the end of 1965. In early 1961, when the current economic upswing was just getting under way, the unemployment rate reached a high of about 7%.

No stronger witness is needed to the success of earlier policies. The stimulus of carefully planned reductions in tax rates, working in tandem with a moderately expansive monetary policy, and blended with a range of Government programs addressed to more specific economic problems, has helped produce a 5-year economic rise of enormous scope. Our real growth rate

during the expansion from early 1961 through 1965, 5-1/2% annually, can stand proudly beside the record turned in by other industrial countries. And it far overshadows our own frustratingly slow growth during the recession-pocked 1950's.

Yet the very success of earlier policies has brought into range a different set of problems and hence of near-term policy objectives. On the whole, our long economic expansion has been remarkably free of price increases, but in the past year there has been greater upward pressure -- understandable in light of our own closer approach to capacity operations and full employment -- but nevertheless most unwelcome.

Amidst all our progress toward greater economic well-being, however, there remains a residue of older problems -- ameliorated, but not solved, by gains in the economy at large. Unemployment among nonwhites, for example, has declined but remains about double the rate for whites, and is surely too high. Too many pockets of poverty remain; perhaps their number and extent are less than before, but their very existence

is the more glaring in view of the general economic advance. And even among the employed, and among the many who are above the poverty threshold, there is much more they can contribute and gain in the framework of a healthy expanding economy.

Fiscal Policy -- a Turning Point

It is the over-all economic picture to which general Government financial policy must be addressed, however, and that picture is clearly changed. The key factor calling for a different policy approach is our commitment in Viet Nam -- but I would emphasize that we had a very solid economic upswing in progress well before the buildup in our Viet Nam effort that started this fall. It was an upswing that resoundingly demonstrated the logic of the reductions in tax rates of the last few years.

In this current fiscal year, for example, our income tax -- even with its lower rates -- will bring in substantially higher revenues than ever before because of the higher income base. The investment tax credit enacted in 1962 and improved in 1964, and the steps taken in 1962 and 1965 to liberalize depreciation have also borne fruit, stimulating a level of investment that not only contributed to over-all economic activity and productivity,

but also added to our productive capacity, so that our economy could expand without generating excessive inflationary pressure.

Industrial capacity is being more fully utilized than at any time in the past decade, but over all, we have the potential to meet both our commitments in Viet Nam and our economic demands at home. I am convinced that the fiscal measures of the last few years to encourage investment deserve a good share of the credit for this.

Taken together, the stimulative effect of tax reductions on the economy has been such that tax revenues in the current fiscal year, apart from the effect of our new recommendations are estimated to be $21 billion more than in fiscal year 1961, despite tax rate reductions that have cut the burden of taxes by some $20 billion at this year's income levels -- more than twice the revenue increase in the preceding five years when there were no substantial tax reductions.

Now, however, with the economy already moving in high gear and our Viet Nam commitment superimposed on robust private demands, there is a clear need for a shift away from the stimulative policies of the past few years. An obvious first step is that additional "fiscal dividends" in the form of tax cuts must be put off for the time being. This was already apparent several months ago, before our new budget for fiscal 1967 began to take solid shape.

Moreover, in mapping out that new budget, and modifying our posture for the balance of fiscal 1966, it is clearly not sufficient merely to come up with a 1967 deficit that is no greater than that of 1966. With private demands running stronger, the flexible exercise of sound fiscal policy means that the Government's posture should be more restraining.

This is precisely what underlies the President's request for an acceleration of revenues in the balance of this fiscal year and fiscal 1967. The principle behind this tax program is to take actions that can be put in effect quickly and that do not make basic changes in tax programs already enacted. For corporations and individuals there is no change at all in final tax liabilities, but only a speed-up in the payment of taxes against the currently accruing liabilities.

The proposed two-year postponement in certain excise tax reductions which Congress had previously scheduled for graduated reduction follows through on the standard adopted by the Congress to govern these excise taxes -- that their reduction be scheduled so as to be of particular benefit to the economy as they take effect. Their reduction now would be stimulative when stimulus is not needed; their reduction later will come

at a time when it is more likely that stimulus would be welcome or appropriate.

Altogether, these tax measures will be withdrawing an extra $2.9 billion in cash payments during calendar 1966. Coupled with the most rigorous pruning of expenditure plans consistent with meeting our urgent commitments abroad and at home, if enacted promptly they will substantially lower a budget deficit in fiscal 1966 and lead to a budget deficit of just $1.8 billion in fiscal 1967. On a cash basis, the proposed budget would produce a surplus of $500 million, while on a national income basis there would be a deficit of about $500 million.

The estimated deficits for fiscal 1966 are: administrative, $6.4 billion; cash, $6.9 billion; and national income $2.2 billion -- not far from the averages during the current expansion. But now with the need to shift in the direction of fiscal restraint, the administrative deficit will be reduced by about $4-1/2 billion during fiscal 1967 and the cash and national income budgets will be coming into approximate balance over the same period.

Some critics have called our tax proposals "one-shot" remedies. Indeed they are. None of us knows the duration and extent of our commitment to the defense of freedom in Viet Nam. We earnestly hope that our objective can be achieved quickly. In that case, our "one-shot" measures are quite appropriate. But if it turns out that our needs in Viet Nam are of longer duration, then the meeting of that commitment will take first claim on the fiscal dividends deriving from an expanding tax base in fiscal year 1968. And if our Viet Nam needs are greater in magnitude than is currently contemplated, or should unforeseen inflationary pressures develop, then further fiscal measures will be requested.

This is the course of maximum flexibility -- requesting some moderately restraining measures, appropriate to the tasks at hand, and that can be put into effect quickly, while standing alert to ask for whatever further actions might be needed as circumstances unfold.

Harmonizing Financial Policies

Developments in the credit markets during 1965 reflected stronger demands from a variety of sources, centered in the

private economy, while the central bank followed a somewhat less accommodative policy. Thus, while we had record flows of funds through the markets, in support of the record level of economic activity, these funds moved at higher rates of interest.

For short-term interest rates the rise during 1965 represented a continuation of the upward trend that has proceeded over the last several years from the low point in the 1960-61 recession. For longer term rates, the rise after mid-1965 was the first significant upturn in the extended period of business expansion that began in 1961. Through most of this period, long rates were little changed despite rising demands for long-term money, because ample savings flows were augmented by the enormous efficiency of our financial institutions in placing relatively short-term deposits in long-term employment. The higher long rates of the past year emerged as demands for long-term credit accelerated further.

Against the background of less receptive credit markets, Treasury debt management in the past year faced a difficult task even though the Treasury's net cash borrowings were relatively modest; indeed, with the Federal Reserve and Government

investment accounts adding significantly to their holdings of Treasury debt there was actually a decline in the volume of Federal debt in the hands of the public during calendar year 1965.

As the year progressed, the prodigious value of earlier advance refunding operations was increasingly apparent. Those operations, including one completed very successfully in January 1965, lightened the task that remained to be accomplished later in the year, and built up a reserve that we could draw on in subsequent debt operations. That cushion cannot be drawn on indefinitely, however, and in our current refunding we are taking advantage of an opportunity to lighten the refinancing tasks awaiting us next spring and summer.

We see our Savings Bond program as another area of prime importance to debt management. A higher rate on these savings, and a planned invigoration of the Savings Bond sales program, is expected to play a significant part in achieving our over-all economic objectives in 1966. Indeed, in addition to the higher rate which will be announced shortly, we are exploring intensively the feasibility of several new types of special appeal

to the 8 million participants in the Industrial and Governmental Payroll savings bond programs and to new participants as well.

It has also become increasingly clear over the past year that Treasury debt management, and other official financial policies, require close coordination with the multitude of other Federal credit activities. To a growing extent, Federal credit programs are expanding their reliance on the private sector for financing, rather than use Treasury financing as a permanent crutch. In view of the great variety of different programs involved here, and the increased level of activity, an effort is now being made to centralize the bulk of these asset sales so as to achieve the best marketing terms and maximum coordination with over-all financial policy.

Like debt management and fiscal policy, monetary policy also has a new environment to work with during this period. In view of recent events, I believe it would be more appropriate for this Committee to hear directly from the monetary authorities on this important topic. As the President stated last December 5, ". . . I will continue to do my best to give the American people the kind of fully-coordinated, well-integrated economic policy

to which they are entitled, which has been so successful for the last 58 months, and which I hope will preserve the price stability so necessary for America's continued prosperity."

Cost-Price Stability Essential

In 1965 we developed some cracks in the excellent record of cost and price stability that has characterized the current economic expansion. Consumer prices rose 1.7% over the past year, a slightly greater rise than the gradual increases of other recent years which averaged about 1.3%. In wholesale prices we saw virtual stability from 1958 to early 1965, but then a 3.4% rise by the end of 1965.

These increases are still quite mild, and of limited duration as of now, compared either with U.S. experience in the mid-1950's, or the more recent experience of practically every other country in the world -- but even a mild rise is not welcome and is a cause for concern. We are well aware that any complacency toward mild increases in costs and prices is an open invitation to more persistent or larger increases, and this we cannot have without endangering an enviable record of substantial economic growth at home with relative price stability,

declining unemployment, and progress toward balanced international payments.

The attainment of nearly full employment means that our efforts to maintain stable costs and prices must be even greater than before. This calls for a combination of coordinated policies. The framework of fiscal and monetary policy is already in the process of shifting away from the stimulative leaning of recent years. But greater effort is needed on the cost and price side, too. "Responsible restraint" whether urged upon business, labor, or Government, is meant to be more than a catch phrase. I believe it can work. But as the President pointed out in his January 27th Economic Message to Congress, the "extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices."

Progress in the Balance of Payments

The United States made a giant stride last year in its march toward balance of payments equilibrium. Between 1960 and 1964 we reduced our over-all deficit, in uneven steps,

from $3.9 billion to $2.8 billion. In 1965, it was cut to $1.3 billion -- the improvement exceeding the total progress of the previous four years.

While the data for 1965 are still incomplete, it appears that this gain was achieved despite some setbacks on particular items. Our trade surplus, for example, was down about $1.9 billion and our tourist deficit widened by about $200 million. Direct investment by U.S. corporations rose by roughly $900 million for the year and was only partly offset by a $500 million increase in direct investment income. Moreover, purchases of U.S. securities by foreigners were offset by liquidations of securities and other U.S. assets totaling over $500 million by the United Kingdom Government.

How, then, was such outstanding over-all progress made in 1965? The voluntary restraint program, announced by the President just a year ago, deserves the lion's share of credit. Its impact was felt first, and most dramatically, in the field of bank credit. Outflows of short- and long-term bank credit were reduced from $2.5 billion in 1964 to virtually nothing in 1965. As for nonbank capital, excluding the direct investment

flows which did increase, we moved from an *outflow* of almost $1 billion in 1964 to an estimated *inflow* of around $300 million last year. More than half of this improvement came from repatriation of liquid funds by corporations in response to the voluntary program guided by the Commerce Department. Operating alongside the voluntary program, the Interest Equalization Tax -- strengthened by the Congress and extended to July 1967 -- continued as an integral and effective part of our over-all effort.

In early December, the Administration announced its balance of payments program for 1966, continuing the measures initiated in February and intensifying the effort to moderate corporate direct investment abroad.

On the assumption that our trade surplus, in the absence of special factors, will improve in 1966, and in the expectation of smaller direct investment outflows, sustained success in other areas covered by the voluntary restraint program, continued vigilance on government expenditures abroad, and the cessation of the large United Kingdom asset liquidations --

we believe we can achieve equilibrium in our international payments -- $250 million on either side of balance.

The importance of reaching equilibrium is vividly brought home by the fact that last year, despite the smaller payments deficit, the United States lost $1,664 million in gold -- the largest loss since 1960. Of this, $259 million represented our payment of 25% of our quota increase to the International Monetary Fund, which will be offset by increased automatic drawing rights on the Fund. Much of the remainder of the loss was attributable to the large deficits we incurred in previous years, as foreign countries used their dollar accumulations to acquire gold. The rate of gold loss fell steadily throughout the year; $832 million in the first quarter, $589 million in the second including the IMF payment, $124 million in the third, and $119 million in the fourth.

The fact that so much of last year's gold drain went to a single country -- nearly $900 million to France -- coupled with the fact that the rate of drain dwindled as the year progressed and our payments position improved, make it clear that

there is at present no general lack of confidence in the dollar. The reverse is certainly the case.

We must make sure this confidence continues. If further action is necessary to bring our payments into equilibrium in 1966 -- either because circumstances change or our present expectations of success are unjustified -- such action will be taken.

We look forward, of course, to the day when the restrictions necessary today can safely be removed. None of us wants to keep these trappings of constraint any longer than necessary. But we do have to be reasonably confident first that the underlying conditions for sustained balance are met, and this will require continued effort on our part and on the part of others as well.

Given price stability at home, the ingenuity of our marketing and scientific community, and the energy of our businessmen, I am sure that over the long-run our trade surplus will widen -- and this will help.

Given the high level of overseas direct investment by our corporations in recent years and the sizable level still

permitted under the new Commerce Department guidelines, I am confident that investment income will grow -- and this will help.

Given passage of the Foreign Investors Tax bill we will have created a domestic climate more conducive to foreign portfolio investment here -- and this will help, too.

But over and above these, there must be a greater understanding by all industrial nations that the task of sustaining meaningful equilibrium -- over the long-term -- requires adjustment by both surplus and deficit countries. Obviously, we simply cannot all be in surplus at once. We are unlikely all to be in equilibrium at once.

Before turning to a discussion of international financial arrangements, I wish to take note of your request that the advantages and disadvantages of wider permissible limits of exchange rate variation be examined. The Treasury has begun such a study and will carry it forward in consultation with other agencies. We hope to be in a position to make our conclusions available to the Committee during this Congressional session.

Progress Toward Better International Financial Arrangements

There is no need to remind this Committee that our progress in correcting our own balance of payments deficit gives added urgency to the problem of strengthening the international payments system. The Committee and its members have made substantial and highly useful and influential contributions to the now nearly universal recognition of this need.

As international trade and payments continue to expand we need to provide for the appropriate growth of world reserves. The dollar will no longer be supplying the rest of the world with increased monetary reserves as it has in the past.

You will recall that I visited many of the capitals of Europe last summer to impress upon my colleagues in the finance ministries the importance which this Government places upon timely preparation for the period when some additional form of international monetary asset will be required. The President's Economic Report reviews this question again this year and points out that progress is being made. We have moved from the discussion stage to the negotiating stage, and are coming to grips with some specific proposals.

Two major lines of approach have received serious attention in discussion and negotiations over the past year. One involves the gradual expansion of automatic drawing rights in the International Monetary Fund. A second approach involves creation of a new reserve unit to supplement the dollar as a part of available liquidity. Participating countries would put up their own currencies as backing for the new units and would undertake to accept the units under agreed procedures in international monetary settlements.

At the moment, negotiations are proceeding actively among the Group of Ten nations that are of major importance in international financial arrangements. Within the past few days the United States representatives at the Group of Ten have introduced certain proposals for consideration by the Group which reflect some of our basic thinking and which entail a combination of drawing rights and new reserve units. I would not be so rash as to predict when some measure of agreement may be reached, or precisely what form it will take, but it is encouraging that these negotiations are going on, and are tackling the underlying issues.

When the Group of Ten countries have reached agreement on general lines of approach this will mark the first phase in realizing an improved system. A second phase will be needed to insure that the interests of countries not among the ten are fully heard and weighed. The third phase will be to achieve adoption of a satisfactory plan by the governments concerned.

The potential for growth in production and trade, which has been so dramatically demonstrated in the postwar period, must not be constrained by inadequacy of world liquidity. Once we have agreed on satisfactory means of providing for the appropriate expansion of reserve assets, providing flexible responses to changing needs, and providing proper safeguards for our own best interests (including appropriate provision for the role of the dollar), we shall have set the foundation for a significant improvement in the international monetary system.

<u>Conclusion</u>

In conclusion, I feel compelled to observe that the path of progress consists inevitably of substituting one set of

problems for another. In the economic sphere, some of the problems emergent today are a bit more welcome than those that beset us for the last few years. Domestically, the more immediate danger is one of overexuberance and upward pressures on costs and prices, rather than unemployment and shortfalls in activity. On the international payments side we are well along the road to eliminating our own payments deficit, but we have the rest of the way to go; and we have seen that as our own deficit is reduced we bring to the forefront the adjustment problems thus placed on the rest of the world, and the potential strains on international liquidity.

If these problems are less unwelcome than their predecessors it does not follow that they are any more easily solved. Yet, I believe these challenges, too, are within our capabilities.

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SUPPLEMENTARY STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
FEBRUARY 3, 1966
10:00 A.M.

During these hearings members of the Committee have expressed their concern about the threat of inflation. The Administration shares that concern. Its actions on the government employee pay raise in August, the steel settle-nent in September, and the aluminum, copper, and steel price situations this past fall, as well as its current budget, bear witness to this concern.

There are those who propose that the Administration come forward now with a program to enforce much harsher restraints on the economy than those now in effect or proposed in the 'resident's budget. The Administration disagrees with the premise that more needs to be done now. However, it welcomes he putting forward of any specific proposals since they may dd to the range of contingency planning in which it itself s engaged. Indeed, it suggests that the House Ways and Means ommittee or this Joint Committee study, review, and recommend

the type of tax increases which would be most suitable if inflationary pressures require additional fiscal action.

First, let us be very clear as to the position of the Administration in the uncertainties that the situation in Viet Nam makes inescapable. The President has given to the Congress an unqualified commitment that "Should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability." He has pointed out that "The extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices." This is our answer to those who ask, "Will the government go for tax increases later this year?"

Second, the Administration does not believe it is wise to impose measures of restraint on the economy in addition to those in effect or proposed in the President's Budget and Economic Report _unless_ or _until_ the "unforeseen inflationary pressures" develop.

We have seen too many expansions turned into recessions by slamming down too hard on the brakes. We have seen too much

unemployment and underemployment too long to cut back drastically and unnecessarily on private demand to provide purposefully an idle reserve of manpower and capacity. We advocate a course of moderation and balance in dealing with any danger of economic excess as we have advocated moderation and balance in curing economic deficiency.

The national economic objectives as set forth in the Employment Act of 1946, under which this Committee functions, provide that "It is the continuing policy and responsibility of the Federal Government to use all practicable means ... for the purpose of creating and maintaining, in a manner capable to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production and purchasing power."

This Administration includes price stability as a goal to be sought along with these more particularized objectives of full employment and a healthy rate of growth. It believes

that there is a fundamental compatibility of these three objectives and that in seeking one of them it is unwise to sacrifice the others. If one objective, such as price stability or full employment, is sought with the utmost rigor without concern for the others, this is not wise national policy.

Of course, from time to time very special situations may force one economic objective to move ahead of the others. It is quite conceivable that the threat of an inflation of such size or duration might cause stabilization of the price level to be given top priority. These black and white situations seldom occur. The more usual task is to seek price stability, growth and high employment simultaneously and in a reasonable degree. The challenge today is to find the mix of monetary, credit, and fiscal measures best designed to achieve all these objectives, recognizing that public policies will not be adequate if some groups who enjoy and exercise substantial market power choose to push up or maintain prices or wages at unwarranted levels.

Against this background let us look at the present situation objectively and carefully with a concern that we press toward all these goals rather than become preoccupied with a single one. In this calendar year 1966 restraints which did not

characterize 1965 have already been imposed upon the economy. Beginning in January an extra $6 billion a year in Social Security and Medicare taxes is being withdrawn from private purchasing power to flow into the trust funds. This was not true of December 1965, or November, or October.

In December 1965 the Federal Reserve Board announced two actions designed, in its words, "to dampen mounting demands on banks for still further credit extensions that might add to inflationary pressures." The full effect of these actions, which take a considerable period of time to be felt, is yet to be ascertained.

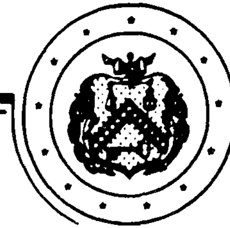
The new tax proposals recommended by the President, if dopted by March 15 as he urged, would withdraw from private urchasing power an additional $2.9 billion during calendar 1966.

The shift in the budgetary situation from substantial eficits in fiscal 1966, brought on by the response to the hallenge of Viet Nam, to surpluses or minor deficits in the dministrative, cash and national income account budgets has een made possible by expenditure reductions coupled with the ew tax proposals.

Coming on stream in 1966 are vast quantities of new industrial capacity which are the fruits of investment made in recent years. Coming into the labor force are a million and one-half additional new entrants from the younger age group and, in addition, many hundreds of thousands are being given the benefit of manpower training to better equip them to fill the needs of the labor market. And, of course, the dwindling rate of unemployment is stimulating renewed effort in the private sector to train and better utilize the available labor force.

Given all these new factors the wise course of balance and moderation in pursuing continued growth, a higher rate of employment and relative price stability would seem to call for determining how the economy reacts to this new mix of relatively moderate restraints before adopting without apparent present reason the far harsher measures -- presumably increased tax rates, direct price and wage controls, and much tighter monetary restraint.

TREASURY DEPARTMENT



WASHINGTON, D.C.

OR IMMEDIATE RELEASE February 4, 1966

PRELIMINARY RESULTS OF TREASURY REFUNDING

Preliminary figures show that $9,732 million, or 33.8%, of the $28,758 million ecurities of the seven issues eligible for exchange have been exchanged for the two ew notes included in the current refunding offer. About $4,938 million, or 90.3% f the $5,467 million outstanding, were exchanged by holders of notes maturing ebruary 15 and April 1, and $4,794 million, or 20.6% of the $23,291 million outstanding, were exchanged by holders of the notes and bonds that will mature May 15 and ugust 15.

Subscriptions total $2,110 million for the 4-7/8% notes of Series E-1967 and 7,622 million for the 5% notes of Series A-1970, of which $860 million for the -7/8% notes and $6,501 million for the 5% notes were received from the public.

Of the eligible securities held outside the Federal Reserve Banks and Government ccounts $2,667 million, or 83.6% of an aggregate of $3,190 million, of February 15 nd April 1 maturities and $4,694 million, or 44.8% of an aggregate of $10,488 million, of May 15 and August 15 maturities were exchanged.

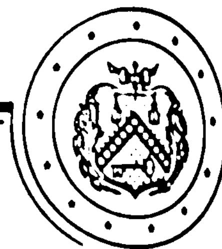
Following is a breakdown of securities to be exchanged for the new notes (amounts n millions):

ELIGIBLE FOR EXCHANGE			SECURITIES TO BE ISSUED			UNEXCHANGED	
Securities	Date Due	Amount	4-7/8% Notes E-1967	5% Notes A-1970	Total	Amount	%
5/8% notes, B-1966	2/15/66	$ 2,195	$ 507	$1,447	$1,954	$ 241	11.0
7/8% notes, C-1966	2/15/66	2,597	1,450	1,013	2,463	134	5.2
1/2% notes, EA-1966	4/1/66	675	153	368	521	154	22.8
tal Feb. & Apr. maturities		5,467	2,110	2,828	4,938	529	9.7
PREREFUNDING							
notes, D-1966	5/15/66	9,519	-	1,231	1,231	8,288	87.1
3/4% bonds, 1966	5/15/66	1,688	-	654	654	1,034	61.3
notes, A-1966	8/15/66	11,060	-	2,587	2,587	8,473	76.6
bonds, 1966	8/15/66	1,024	-	322	322	702	68.6
tal prerefunding maturities		23,291	-	4,794	4,794	18,497	79.4
Grand Totals		$28,758	$2,110	$7,622	$9,732	$19,026	66.2

Details by Federal Reserve Districts as to subscriptions will be announced later.

F-365

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 7, 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 12, 1965, and the other series to be dated February 10, 1966, which were offered on February 2, 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 12, 1966		:	182-day Treasury bills maturing August 11, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.831 a/	4.625%	:	97.593	4.761%
Low	98.822	4.660%	:	97.582	4.783%
Average	98.825	4.650% 1/	:	97.586	4.774% 1/

a/ Excepting one tender of $1,600,000
69% of the amount of 91-day bills bid for at the low price was accepted
74% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 21,849,000	$ 11,849,000	:	$ 25,529,000	$ 15,529,000
New York	1,686,839,000	838,699,000	:	1,368,013,000	651,533,000
Philadelphia	27,044,000	20,044,000	:	20,327,000	7,327,000
Cleveland	44,683,000	39,683,000	:	68,953,000	44,758,000
Richmond	16,858,000	16,358,000	:	5,745,000	5,645,000
Atlanta	43,190,000	29,804,000	:	28,588,000	14,280,000
Chicago	325,553,000	156,622,000	:	285,285,000	125,643,000
St. Louis	54,848,000	33,193,000	:	23,111,000	9,659,000
Minneapolis	18,717,000	15,407,000	:	10,596,000	9,096,000
Kansas City	26,680,000	24,310,000	:	14,436,000	13,936,000
Dallas	27,701,000	20,391,000	:	12,884,000	11,624,000
San Francisco	105,510,000	95,720,000	:	146,188,000	91,684,000
TOTALS	$2,399,472,000	$1,302,080,000	b/	$2,009,655,000	$1,000,714,000

b/ Includes $252,819,000 noncompetitive tenders accepted at the average price of 98.82
c/ Includes $111,366,000 noncompetitive tenders accepted at the average price of 97.5
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.77% for the 91-day bills, and 4.96% for the 182-day bills.

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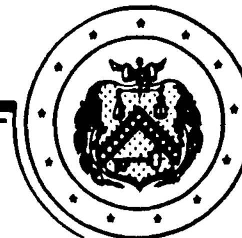
TREASURY DEPARTMENT



WASHINGTON, D.C.

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[cut off]day, February 7, 1966.

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[cut off]istrict	Applied For	Accepted	Applied For	Accepted
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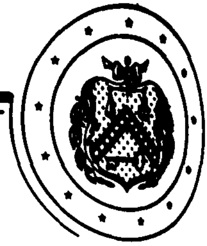
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 9, 1966

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JANUARY

During January 1966, 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 $75,072,000.00.

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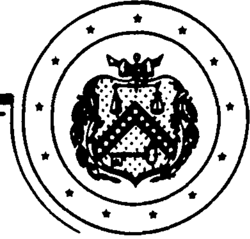
F-367

TREASURY DEPARTMENT



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F-367

STATEMENT OF MISS EVA ADAMS
DIRECTOR OF THE MINT

BEFORE THE HOUSE GOVERNMENT OPERATIONS
SUBCOMMITTEE ON LEGAL AND MONETARY AFFAIRS

FEBRUARY 8, 1966

Mr. Chairman and members of the Legal and Monetary Affairs Subcommittee of the Committee on Government Operations, I am delighted to be here.

It has been almost a year since the Treasury last testified before your committee which has been concerned, not alone with the economy and efficiency of Mint operations, but also with there being an adequate supply of coin to meet the needs of our economy. In a sense, our opportunity to appear before your committee does furnish the means by which we can give the American public a full report on the current coin situation and to tell them our plans for the future. This, we hope will lead to confidence and understanding.

There has been a tremendous improvement in the availability of coin. This is due, in large measure, to the assurance that the Government intends to flood the country

with new coins, if need be, and this has been backed up by the full support of the Congress in giving the Mint everything it needs to accomplish this end.

It has been unfortunate that in the past few years we have had to face not only a coin shortage, but also to enter into a relatively uncharted course on a change in our coinage alloys. In the relatively few months since the Coinage Act of 1965 has been passed, we are on top of both problems: we are producing a mass of coins, and we are well under way in shifting to the production of our new alloy coins.

Late last summer we started to make the first of our new alloy coins--the cupro-nickel quarter. As the finished coins came from the presses we packed them in Federal Reserve bags, to destroy any value that a "Mint Bag" might attach to them for speculative purposes. In November, 1965, the Treasury sent word to the Reserve Banks they could start using these new quarters, and within the next sixty days, over 400 million went into circulation. The impact of this large quantity of coin hitting the marketplace in so short

a time, accomplished what we hoped it would--it brought an end to the acute coin situation in every denomination except the half dollar.

PART I. PRESENT SITUATION WITH RESPECT TO COIN SHORTAGE

Mr. Chairman, I know you are interested in specifics, and not in assumptions. To report to you factually on the coin situation in every area of the country, we asked the Federal Reserve Banks, 36 in all, to sound out merchants and bankers. What has come back sounds like an unbroken record - every Federal Reserve District and Zone reports there has been improvement in the availability of every denomination, except half dollars.

With your permission, sir, I would like to read these reports into the record.

ATLANTA: The principal Atlanta banks report very few problems were encountered in meeting customer demands for quarters, dimes, nickels and cents during the past holiday season. Availability of half dollars were critical during this period, and at the present time. These banks report present coin inventories about normal. Observations of local merchants are very much like that of the banks. A typical comment: "The new quarters have done a tremendous job in easing the shortage." The lack of halves does not disturb them. Our observation as to the composite picture in the area served by this office is that there is continuing improvement.

BALTIMORE: Except for a short period in November when we had to ration dimes, we had no problems in meeting all requests for coin during the past holiday season, with the exception of half dollars which we had to ration. The situation at present is the same. We are filling all orders except half dollars which we are rationing. Three local member banks plus one large non-member bank report as follows:

Maryland National Bank - The holiday season was OK except for a slight shortage of dimes for a short period and the shortage of half dollars. We are currently OK except for half dollars.

First National Bank of Maryland - The holiday season presented no problems except for half dollars. We currently have no problems except for half dollars.

Union Trust Company of Maryland - We had no problems during the holiday season except for half dollars. In fact, we have been able to supply correspondents' requests to some extent except for half dollars. We are currently OK except for half dollars.

Equitable Trust Company (non-member) - The holiday season was OK except for dimes and half dollars. We are currently OK except for half dollars.

The large Baltimore department stores report as follows:

Hochschild, Kohn & Co. - The holiday season presented no problems except for half dollars. We are currently having

no problems except for half dollars.

Hutzler Brothers - The holiday season was OK except for half dollars. We are currently OK with a slight improvement in half dollars.

E. J. Korvette (large discount house) - We had no problems during the holiday season except for half dollars. We currently have no problems except half dollars.

BIRMINGHAM: With the exception of halves, we have had an ample supply of coin since the release of the clad quarters. Since then, the statement heard almost universally from merchants and bankers is: "No problem except for halves."

Those using coin change machines have a problem, but most seem to have kept the machines operating by spreading available supply. Some have purchased attachments that bypass the half dollar section of the machine.

BOSTON: Our coin supplies are presently adequate in all denominations except half dollars. Our coin inventory, except for half dollars, is at approximately a normal level. The flowback of all denominations except half dollars has shown substantial improvement, but this good situation has been made possible only by continued receipt of supplies from the Mint.

The banks in this district have generally accepted the use of quarters in lieu of half dollars, but we get numerous complaints from banks and their customers that half dollars are essential for the functioning of change-making machines.

With the exception of nickels, we were unable to meet all the coin requests in full during the holiday season. Nevertheless, inquiries of local banks and large users of coin confirm that sufficient coin was available, with the exception of half dollars, to cope with seasonable needs.

Local banks and large users now report adequate stocks for present and foreseeable needs except for half dollars. Large banks report a considerable slackening in demands from correspondent banks. We are continually urged to seek improvement in the half dollar situation because of serious difficulties with change-making machines.

BUFFALO: The coin situation has eased in this area except for halves which are in very short supply. We contacted the Buffalo banks and found that during the holiday season they were short in the supply of quarters and halves. The situation has eased now for quarters, but they are still very short of halves. We contacted one of the large department stores and two of the large grocery chains and found that they had no problem with coin during the holiday season except for halves.

CHARLOTTE: Of six local merchants contacted, four said they experienced no shortage except halves during the past holiday season and they had sufficient supply of quarters to substitute. The other two reported some shortages of dimes, quarters and halves.

Of four local banks contacted, only one reported a coin shortage during the holidays. That bank purchased coin in December. At the present time, except for halves, coin is in ample supply in this territory.

CHICAGO: Broadly stated, the coin situation in this area is considerably improved as compared with pre-holiday period. However, while nickels and cents have been and are in adequate supply to meet all demands, we continue to ration halves, quarters and dimes.

There is no flowback in halves, and approximately once a month as we receive Mint shipments, the entire amount is allocated to member banks on the basis of deposit size. In every instance, our survey today of banks and merchants has reflected an extremely critical situation for this denomination during the holiday season and at present.

Percentage payments of quarters and dimes are currently higher than heretofore, and for next week for both denominations will be 125 percent of pattern. None the less, even with this percentage, we are unable to meet demands for quarters and dimes as illustrated by our experience this current week when, even though payments of quarters were 100 percent of pattern, total demands from banks outside of Chicago were 150 percent of payments; and for dimes, with payments 125 percent of pattern, total demands from banks outside of Chicago were also 150 percent of payments.

Increased percentage payments of dimes have been due to increased flowback, with some reduction of orders. With

curtailment of Mint receipts, we are concerned as to our being able to maintain this high percentage payment level. For quarters, flowback has not increased to any significant degree, and our high level of percentage payments results from Mint receipts.

With continuation of Mint shipments of quarters in the coming months comparable to January receipts and the February expectation, we feel that we can maintain a high level of percentage payments, and possibly in the near future we can remove restrictions for payments of this denomination.

In our contacts today with banks and merchants regarding quarters and dimes, the consensus reflects in almost every instance severe shortages of quarters during the holiday season and presently moderate shortages in some areas and no problems in others. For dimes, moderate to severe shortages during the holiday season and presently in almost every instance no problems were reported. For dimes, however, we are apprehensive as to our ability to maintain the present high level of payments, which is almost entirely supplied from seasonal flowback and reduced requests. We are fearful that unless Mint shipments increase, we may be obliged to reduce our percentage payments drastically and thus curtail the flowback with a return to our former problems.

CINCINNATI: During the past holiday season the coin situation was critical in this area except for cents and nickels. Since the first of the year, there have been some signs of easing except for halves. Local bankers report:

"During the holiday season the coin supply was grossly inadequate. We had to send a truck to rural areas of Kentucky to buy a few dimes and quarters from country banks and others. No halves are available. Since the first of the year, the situation has eased a bit, but still we are unable to fill customers' orders."

"We were able to get through the holiday season with a considerable amount of rationing. Since that time, we have had slightly less demand, but we are unable to satisfy our customers' needs. Halves are almost a thing of the past. We recommend that the Mint release a sufficient supply to end constant rationing of coin to our customers."

"During the holiday season we were very embarrassed, particularly in making change at tellers' windows. We were unable to satisfy our customers. At the present time the demand for silver coins has lessened to some extent but our supplies are still inadequate, especially halves."

"We were very short during the holidays, and we still have a problem. We cannot see much difference between now and December."

Two department stores report:

"Our biggest problem is halves and quarters. We are wrapping ourselves. We cannot get coin from the banks. Halves are still a problem, but other coins are now OK."

"Our cashiers keep a good supply of coin on hand. We do not get coin from the banks. We have the situation under control."

A supermarket reports:

"We had many problems during the holiday season. No halves, and pressure on quarters. The situation eased by the end of the year, but now we are only getting 75 to 80 percent of our needs."

A hotel reports:

"We had no coin problems during the holiday season or after. We accumulate our own coin from operations."

<u>CLEVELAND</u>: We have met all requests for quarters and dimes this past week and most requests in preceding week due to heavy Mint shipments and fall-off in demand. The return flow from banks for the first three weeks of January, however, has been light. The return flow of dimes was only 89 percent of the 1965 level and one-fourth of the 1962-64 levels. The return flow of quarters was 126 percent of 1965 level but about one-eighth of 1962-64.

Both dimes and quarters were in short supply and rationed through December. Banks generally complained that they could not satisfy merchants. Many banks were still making special efforts to obtain quarters at additional expense, including purchase at a premium.

The payment of halves is still limited to the receipts from the Mint. This requires severe rationing. Almost no halves appear in circulation in this community, nor do they return to the Reserve Bank. The supply of cents was adequate through the holiday season and nickels were plentiful. The return flow of both is currently close to the 1962-63 levels. We have a very large inventory of nickels.

Local banks report:

"The clad quarters gave a tremendous lift, but did not do the whole job. We could not supply customers with what they wanted."

"Whole coin situation is not too bad right now except for halves."

"We had no problems since the holidays except for halves."

"We made out all right during the holidays because we bought quarters at a premium and got dimes from the telephone

company."

"Our situation was not too drastic during the holidays. We arranged to get quarters from non-bank sources, but we did not buy any."

"The situation seems to be clearing somewhat. I have not had a complaint in two weeks."

DALLAS: During the past month our coin receipts from commercial banks exceeded coin shipments for the first time since February of 1962. The stock of coin on hand totaling $3,822,000 constitutes twice the amount of coin which, prior to the coin shortage, was considered to be a normal working stock or a one month's supply. We do not, however, have a normal supply of half dollars; they are still in short supply.

Local banks report:

First National Bank - "We were able to supply coin to customers during the holiday season with the exception of half dollars. The demand for halves is still a current problem."

Republic National Bank - "We have a good supply of coin except halves, but most customers have learned to use quarters instead. The half dollar problem is the only current one."

Mercantile National Bank - "We had no coin problem during the holiday season except we were not able to supply the demand for half dollars. Our only current problem is half dollars."

Texas Bank and Trust Co. - "We have a good stock of coin except halves. Many customers are content to use quarters in place of halves. We have no current coin problem except the shortage of half dollars."

Merchants report:

Automatic Canteen Company of America - "We have had no problem for quite some time. We are making deposits of coin in the bank of about $5,000 daily."

Neiman-Marcus - "Some difficulty was experienced because of the shortage of half dollars. Our supply of quarters helped to alleviate this situation. We have no current problem except for half dollars."

Sanger-Harris - "We started accumulating coin in November in anticipation of holiday needs and had no difficulty during the buying season. Our only problem now is shortage of half dollars for change machines."

Titche-Goettinger Company - "We had no problem during the holiday season except for half dollars. Our company uses change-making machines and the half dollar shortage did present a problem. All other denominations are in good supply. We have no current problems other than halves."

Sears-Roebuck and Company - "The half dollar shortage was the only problem this year as compared with a shortage of all coins in 1964. No special instructions were issued to sales people for making change because of adequate supply of coin during the past holiday season."

At the present time, with the exception of half dollars, we consider the coin in circulation, that in commercial banks and this bank's current supply to be adequate to meet the demands of business and industry in the area served by the Dallas office.

DENVER: Coin situation in this area appears to be easing in all denominations except halves. The situation during the past holiday season was "very tight," according to bankers contacted. However, since January 1, coin appears to be adequate for needs except for halves.

DETROIT: The consensus of a group of leading and representative bankers meeting in Detroit recently was that the coin shortage is not over. They pointed out that the Treasury and the Fed may think this is so. This feeling of optimism, however, has not spread to some of the banks, and certainly many, many merchants are not too satisfied in their minds that if this coin problem erupts again the Mint's resources are adequate to meet it.

Contributing to this feeling of uncertainty on the part of the merchants is the half dollar shortage. Detroit was never a big user of this denomination until recent years. Through an "education" program carried on by the banks, the merchants began using more halves than before. It involves fewer coins to count, and it moves around so fast that it considerably lessens the demand for quarters. Many of the change machines in the City of Detroit still use half dollars, and though they have been hard to get, the banks still are scrounging around to pick up enough to furnish their customers who operate them.

In other words, the bankers say: "As long as there is a shortage of half dollars, there is still a coin shortage."

EL PASO: Banks and merchants fared generally well during the holiday season with the exception of an extreme shortage of halves. However, our extremely low supply of quarters from December 10 through December 14 seriously handicapped local merchants. We were completely out on December 15, but received a new supply on December 17. Since then there has not been any strain except for the continuing problem of halves.

Sears and large federal mart discount house report:

"No special problems on cents, nickels and dimes, but we constantly pushed banks for really adequate supply of halves in order to be able to be in a reasonable operating condition on quarters."

Our largest department store which has suburban branches stated it was badly short on half dollars which were urgently needed to operate selectronic NCR cash registers. Quarters were a very poor substitute because this denomination only fouled up the situation by completely locking the machines, thereby making them inoperable. Our principal theatre chain also complained that lack of halves was a headache on their change machines.

The contacted bank officials further stated that the most consistent complainers were food, beverage, cigarette, etc., companies that use vending machines. But this has been going on so long that they have learned to live with it.

<u>HELENA</u>: In Montana the supplies of all coin except half dollars were adequate during the holiday season. Increased flowback of coin from banks to this Branch within the past two weeks suggests that banks are less concerned about their inventories, except for halves.

Despite increased quantities of halves that were distributed during December, we are still unable to supply the amounts requested. Local merchants and banks have not complained about the shortage of coin during the holidays.

<u>HOUSTON</u>: With the exception of halves, there has been a gradual buildup of our coin stock and banks in this area are being adequately supplied. In our contacts with selected banks and chain stores today, we were informed that, except for halves, they encountered no problems during the recent holiday season and are currently obtaining ample coin to satisfy their needs. Some of the larger banks also indicated some acceleration in over-the-counter receipts in the past month or so, enabling them to gradually add to their inventory.

<u>JACKSONVILLE</u>: All denominations are in ample supply and the return flow from banks is good except for halves which are in extremely short supply and are

being rationed. Quarters are available to substitute for halves without creating serious problems except for many grocery chain stores needing halves for electronic change makers.

Two local banks report:

"We suffered slightly for quarters during the Christmas season, but the half situation was not as critical as expected because businesses and the public readily accepted quarters as a substitute. The present situation is that coin is in ample supply except for halves. We have no serious problems."

"We needed additional quarters and halves during the Christmas season, but were not seriously handicapped. At present we could use additional halves, but so long as quarters are available, this does not pose a real problem."

One local department store stated:

"We had no trouble during the Christmas season and we are experiencing no difficulties at present. However, we will be able to use additional halves when available."

The headquarters of a large grocery chain operating several hundred stores reported:

"For some time we have experienced constant problems with the shortage of halves that are needed in electronic change makers that were acquired about the time the shortage of halves began to be felt. During December we also had some difficulty in getting all the quarters that were needed, but other denominations were available in satisfactory supply."

KANSAS CITY: The coin situation has improved considerably and we are presently rationing only halves. The flowback is increasing and we are now approaching the level of receipts of the spring of 1964. Total coin on hand is highest since January 1963. Half dollars disappear from circulation immediately and there are almost none in

circulation in this area. The supply of cents, nickels and dimes was plentiful during the past holiday season. Comments of local banks and merchants ranged from "Not nearly enough quarters and no halves," to "We got by but had to shop for several sources for quarters." All are critical of the half dollar shortage.

LITTLE ROCK: The supply and demand situation is near normal for all denominations except halves. Commercial banks report that all needs during the holiday season were satisfied except halves. Lack of uniformity in new clad quarters is reported to be causing some problems in use of coin wrapping machines and coin changers.

LOS ANGELES: Banks and others are presently disgorging cents and nickels. We are presently faced with an extreme and serious shortage of storage space because of the heavy inflow from all sources of these denominations. We have already exceeded our normal coin vault capacities, requiring storage in a manner that is hampering operations.

The dime situation is easy. One large central vault informs us they are experiencing some return flow of dimes from outlying branches and commercial customers, so their demands on us are abating. Another large user gives us substantially the same information, though the return flow to them is still rather nominal.

Quarters show signs of circulating with some surpluses developing in particular areas. One central cash vault informs us that it is receiving quarters out of circulation from vending companies, which is a complete turnabout from former experience. Another source informs that quarters are still in short supply with the demand still strong, but not at former critical levels.

Halves, of course, are not circulating in areas to any accretive extent. None have been received by us out

of circulation for a considerable period of time.

Merchants who are large coin users fared reasonably well, though their suppliers did receive and continue to receive many complaints regarding continuing shortages, particularly in the denominations of quarters and halves. Frequently, they are required to substitute smaller denomination coins for quarters and halves.

Large coin users have apparently learned to live with the continued extreme shortage of halves, though it meant they had to substitute quarters or smaller denomination coin when making change. The shortage of halves continues to be a critical factor to large chain stores and merchants who use automatic coin machines, these machines being inoperable without all denominations being available to stock them.

LOUISVILLE: We are meeting all requests for coin received from banks served by this office with the exception of half dollars. Normal flow is becoming more evident. Banks and merchants contacted reported no problem coin-wise during the holiday season nor at present. A typical quote is: "No coin problem except halves and that will not be corrected until the issuance of the clad halves."

MEMPHIS: In general the local coin situation during the past holiday season was satisfactory. One large bank indicated sufficient supply of all denominations. Another indicated only minor scarcity of half dollars. A few merchants reportedly modified their automatic coin changers to operate without half dollars. Pressure on half dollars now appears to be easing and over the past three months, the flow back on other denominations has established an upward trend.

<u>MINNEAPOLIS</u>: Our desirable inventory is more than adequate in quarters, nickels and cents. The inventory on dimes is about two-thirds of what we would like. We are out of halves and have been severely rationing them for many months. We are experiencing some flowback of all denominations except halves.

Large local banks report:

"During the holiday season, the only problem was the shortage of halves, and this condition still exists."

"During the holiday season, we rationed halves and dimes. However, dimes are rationed only to the extent of 'below desirable' inventory. At present, no problem except for halves. We continue to have considerable demand for all denominations."

"No problem except for half dollars. At present we have more than an adequate supply of all denominations except halves."

"Halves were in extremely short supply. Quarters were also in tight supply, but we were able to meet legitimate demand. Requests by two national firms for quarters for promotional purposes were turned down. At present we are meeting complete demand except for halves."

Quotes from local merchants (food chain, theatre chain, parking lot chain, coin laundry, and department store)

"Halves, quarters and dimes were a real problem to us during the past holiday season; nickels to a lesser extent. We bought coin from our customers (consumers) by offering 100 free trading stamps for $10 in coin. The situation has improved considerably since the holiday season as our supplier banks have not rationed us except for halves."

"We can't get any half dollars, which of course, you know. The coin shortage eased up over the holiday season when the new quarters came out. I can speak for all the managers downtown. It is rather difficult to operate as our change machines must be operated to punch two quarters instead of one half and the element of error is there."

"Half dollars are very short. The pressure is off a

little with the new quarters. In selling two tickets at $1.75 each, totaling $3.50, our cashiers must punch two quarters for change and mistakes can occur. Southtown had a little problem for about a week with dimes. Until the new quarters came out, they were also a problem. The fellows are getting pretty good at scrounging. We have managed to get by with quarters, but it does make for a lot of mistakes."

"We get most of our coin from our own lots. We operate by customer envelopes. We don't have any trouble with coins for our own operations. We turn in approximately $150 every day in coins, mostly quarters, nickels and dimes. We do have trouble with half dollars, and that is the only denomination we are short of now. In a $1,000 or $1,100 day, we never turn in more than two rolls of half dollars."

"My son operates a coin laundry and the fifty-cent pieces have disappeared from the face of the earth."

"We experienced a very pleasant holiday season in 1965 as compared to 1964. Our local banks were able to supply us with everything except halves. The release of the clad quarters helped our situation. We have an adequate supply of coin now except for halves."

<u>NASHVILLE</u>: We are now in the position to furnish all denominations of coins needed by banks except halves. Banks and merchants report:

Third National Bank - No coin shortage during holiday season with the exception of halves. The flowback was good after the holiday season.

Commerce Union Bank - Some shortage in quarters during the holiday season, but enough smaller denominations so as not to create a serious problem. The largest problem is in supplying halves to machine users.

First American National Bank - We met requests for coin during the holiday season except for halves. The

supply of halves was sufficient to satisfy machine users. A surplus of cents, nickels, dimes and quarters are now on hand. Some flowback of halves is beginning to show, but few Kennedy halves are coming back.

Hamilton National Bank - (Knoxville) During the Christmas season we had difficulty in obtaining enough quarters and there was not enough halves to meet the demand for legitimate use.

First National Bank - (Greeneville) We were able to meet the demand during the holiday season except for halves. Most customers were satisfied to use quarters instead of halves. The demand for halves has decreased.

Commerce Union Branches in Columbia and Camden - Sufficient supply of all coin except halves. The demand for halves has been strong, but no serious problem. The flowback of all denominations is good except for halves.

H. G. Hill Grocery - The coin situation is now good. The shortage of halves is not causing any particular problem. Very few halves are received in change.

Sears, Roebuck & Co. - We were able to make change during the Christmas season. No noticeable shortage of any denomination.

Cain Sloan Co. - During the holiday season we experienced difficulty in getting halves and quarters in sufficient amounts. The shortage of halves was a problem because of change machines. We have noticed some customers looking through change to pay with clad quarters instead of old quarters.

Harveys Department Store - We were not able to get all the coin we needed during the holiday season. Problem in quarters and halves for change-maker. We had to go out of town in December to get quarters from a branch store. We were conscious of a coin situation each day. No problem now except for halves.

A & P Grocery - No problem in any denominations except halves. We do not get halves in change. This slows up change operations.

NEW ORLEANS: Most merchants fared considerably better during the recent holiday season than during the same period a year ago. There were reportedly some shortages in dimes and rather critical shortages in halves. Merchants now report coin supplies adequate in this area except for half dollar denomination where a critical shortage still exists. One large food chain indicates an inability to use their change dispensing machines because of the half dollar shortage. A local bank reports that a valued customer threatens to change banks unless the bank can supply more halves.

NEW YORK: During the past holiday season, the coin situation was markedly improved over the previous year with the exception of half dollars, which have been and continue to remain in extreme short supply. During the month of December we were able to fill orders from the small banks with minor exceptions. However, it was necessary to continue, with the exception of nickels, to impose maximums ranging in cents from $5,000 to $15,000, in dimes from $5,000 to $30,000 and in quarters from $10,000 to $35,000. The maximums, however, came into play mainly with respect to our larger banks.

Information obtained from a number of banks indicates that during the holiday season, and in varying degrees, banks were able to acquire sufficient coin by various means to satisfy most demands made on them, and only one bank reported that it had been necessary to purchase coin at a premium during the holiday season. We understand that this bank has purchased some coin each week since October, 1964. We heard of no complaints that business activity was affected by the coin shortage.

As to the present conditions, this week, for the first time in a long time, we were in a position to satisfy all demands for coin, except for half dollars. The amount of

coin deposited with us by banks this week amounted to $1,520,000 which was about three times the amount deposited in the comparable week last year.

Local banks agree that for practical purposes the situation now can almost be considered back to normal, except for half dollars.

OKLAHOMA CITY: The consensus of local banks and merchants is that no shortage of coin, other than halves, has existed since December 14. We concur. Half dollars have been critically short since shortly after the introduction of the Kennedy design. There appears to be an abundant supply of all other denominations.

OMAHA: Regarding the coin situation during the past holiday season, generally speaking, we were able to take care of the demands of all our banks during this period. Some rationing was necessary on quarters prior to the receipt of $200,000 in halves on December 16, 1965, and $100,000 in quarters on December 21, 1965. Since that time, with the exception of half dollars, our supply of other coins is sufficient to take care of demands without rationing. We are receiving many inquiries regarding the availability date of the new half dollars.

PHILADELPHIA: The banks in all areas of this district, although not able to meet all customer requests over the recent holiday period, were able to keep customers reasonably supplied with all denominations of coin except half dollars. Present coin supplies are meeting most requests except for half dollars. Two bank officers, one in northeastern Pennsylvania and the other in a south New Jersey seashore resort, felt that some large users of coin were still maintaining higher than necessary inventories. Two officers of Philadelphia banks felt that the coin flow, except for half dollars, resembled its pre-shortage patterns.

PITTSBURGH: The present coin situation at this office is good except for the stock of halves which will last only about two days. We are filling all requests for quarters and dimes which are believed to be reasonable. Prior to receipt of recent shipment, both were rationed $500 to $1,000 per order. Nickels and cents are plentiful. Additional quarters and dimes provided prior to the holidays were timely and greatly appreciated. No halves have been deposited here in 1965 or 1966 by banks.

Local banks indicate that their situation is practically the same as ours. Cents and nickels are excellent, dimes and quarters are greatly improved both now and prior to the holidays, and halves are critically short.

Principal complaint of merchants received by banks is the lack of halves and having to dissipate a limited supply of quarters to substitute for them.

Two large local banks bought substantial amounts of quarters from a New Jersey firm prior to the holidays for their own and their correspondents' use. The premium plus shipping costs are understood to have been substantial.

PORTLAND: During the past holiday season and several months prior thereto, halves, quarters and dimes were rationed to banks in our zone as supplies were not available to meet their requirements. Nickels and cents were in good supply and no problems existed. At present, we are experiencing a good return flow of dimes and a small amount of quarters. We are now filling all orders for coin in full with the exception of halves, which are in critically short supply.

One local bank states: "We barely got by during the holiday season. We had demands for coin that we couldn't meet. We have no problem now except for halves."

Another bank reports: "We were not able to supply all requests during the holiday season. The situation was

quite tight. Halves are our only problem now."

One local concern says: "The situation was very tight during the holiday season. We barely got by. It was necessary to close down the coin change registers as no halves were available and quarters were in short supply. We has to obtain coin sources outside banks. We have no problem now except for halves."

RICHMOND: Eight banks were contacted in our area and the results were almost identical - no real problem during December and no problem today except for halves. Three banks reported slight problem in quarters prior to the distribution of the new type quarters. All banks report pressure from customers for halves.

A large drug chain reports: "No coin problem before Christmas or now - not since the new quarters came out."

A large department store reports: "A real problem with half dollars, but no problem with any other coins before Christmas or now."

One large grocery chain reported problems in dimes and quarters until late in the year, but the situation eased before Christmas. No problems at this time."

The drug and grocery chains report no need or desire for half dollars.

This office has filled all requests for all coins except halves since the middle of December. No halves are returning from circulation and Mint deliveries of new halves are rationed and paid out two to three days after receipt. Mint shipments and the coin return from circulation provide satisfactory supplies in cents. Nickels, dimes and quarters returning from circulation at a very high rate.

ST. LOUIS: With the exception of half dollars, the present coin situation in this area is good. Half dollars continue to be rationed severely. Supplies of other

denominations appear to have caught up with demand. Coin flow back for January 1966 is about 41 percent above December 1965 for cents through quarters, but is only 48 percent of January 1963. Flow back of halves is nil.

Two large local banks informed us that beginning with the receipt of the initial supply of clad quarters in November 1965, all requests for coin from customers were fully supplied except for halves. One other large local bank informed us that some rationing of quarters was necessary in the early holiday season.

SALT LAKE CITY: During the past holiday season we had ample supplies of dimes, nickels and cents with quarters barely adequate and halves scarce. Virtually all quarters received from the Mint was disbursed to the banks. The quantity of halves was insufficient to meet the demand. Our present situation indicates we have ample supplies of all denominations except halves, for which there is still a large demand. Requests for other denominations is now reduced considerably.

The return flow of quarters started the first of the year and is accelerating. We have a large supply of nickels and cents, with the return flow of these denominations becoming relatively heavy, and this may present future storage problems. There is no return flow of halves.

All banks and merchants contacted indicate that adequate supplies of coin presently available except for halves. One local bank indicated difficulty experienced in supply coin about the middle of the year, but by Christmas season the early release of the clad quarters had eased the situation greatly. This was echoed by other local banks contacted.

Local merchants experienced only temporary and minor disturbances in coin supply during the Christmas season;

however, as they used automatic change return devices on their registers, the lack of half dollars made such devices ineffective. One of our rural banks indicated it has been able to acquire enough coin before the Christmas season to adequately supply all customers, while another rural bank observed that the present ample supply of quarters is apparently causing hoarders to return quarters into circulation.

In general comments of all banks and merchants contacted was that the large supply of quarters made available during the last part of the year materially reduced the problems they were experiencing with coin shortages prior to the holiday season.

SAN ANTONIO: We have no silver dollars on hand and seldom receive requests for this denomination. With the exception of halves, we now have an adequate supply of other denominations to meet the demand for coin in our area and rationing is no longer necessary. This was brought about by ample shipments from the Mint and a substantial return flow from member banks. As was necessary during the entire year of 1965, it is still necessary to ration halves because of rather small shipments from the Mint and no return flow from member banks. Our present inventory of halves is almost completely exhausted. While we are compelled to refuse request orders for halves, few complaints are received as adequate supply of quarters is available.

One large local bank advises that the coin situation is now satisfactory with the exception of halves. Only about one-third of the orders from correspondent banks can be filled for halves. Several customers are unhappy over the inability to obtain this denomination and some have altered change machines to eliminate the half dollar slot.

Another large bank advises that the quarter situation was corrected during the latter part of December, but it is unable to meet the demand for halves from both correspondent banks and local customers. A third large bank says the coin situation is OK except for halves, and that fewer complaints are received.

Two local merchants handling large amounts of coin are not concerned over the half shortage as ample supplies of quarters are available. Both have altered change machines to eliminate the slot for halves.

SAN FRANCISCO: The coin situation in this area has greatly improved in recent weeks with the exception of half dollars. The situation by denomination is:

Cents - All orders met in full during the past year resulting in improved inflow. We are still experiencing net payments.

Nickels - Permanent elimination of rationing last June apparently disgorged hoarded coin and resulted in abrupt acceleration in return flow during the past several months. Inventory build-up in this denomination causing critical problem in availability of coin storage space. Present inventory of nickels, $2,880,000, represents at least a six month's supply.

Dimes - Rationing discontinued in mid-December, 1965. Now experiencing some inventory build-up in this denomination.

Quarters - Although rationing during pre-holiday season was still severe, heavy payout around holidays may have improved shortage. Discontinued rationing January 25. During the past few days, orders have begun to drop off and inflow appears to be developing.

Halves - This is our only critical denomination. Severe rationing continues and return flow is nil.

Discussions with large banks reveal that the situation at the commercial banking level is apparently in accord with observations cited above. All banks contacted agree there is no problem with cents, nickels or dimes at this time, nor was there during the Christmas season. Some

banks indicated quarters fell considerably short of meeting customers' demands during December, while others indicated they met orders in full. However, all agree that present supply is adequate and customer rationing has been discontinued. The supply of half dollars is critical at all commercial banks and they are receiving no deposits of consequence in this denomination.

Inquiry of a food store chain, department store and national chain department store developes that halves and quarters were in short supply during the holidays, necessitating use of smaller denominations. The merchants reported that except for halves sufficient coin is now available for normal conduct of business.

SEATTLE: Coin inventories in this area were adequate during the past holiday season with the exception of quarters and halves. Cents and nickels have been in good supply most of the past year. In October we asked you to curtail shipment of nickels to us as our inventory was high. Since then our receipt of nickels from commercial banks has been sufficient to fill new orders received without lowering our inventory.

Dimes have been in good supply the past two or three months. Quarters were in short supply all year and this continued during the holiday season as our December allotments were received late. Since then the situation for this denomination has improved to the point where some banks are now actually returning a few quarters to us. Orders from banks the last two weeks have been much lighter than usual.

Halves were inadequate all year and continue to be so. Inquiries made at local banks today indicate that they got through the holiday season satisfactorily but with a few uncomfortable situations.

Regarding quarters and halves, the situation during the holiday season was more severe in eastern Washington as far

as we can determine. Merchants fared satisfactorily with most complaints being with regard to halves. Many of these were because of automatic change machines which will not function without halves. On an overall basis, the coin situation in this zone seems much improved since Christmas.

* * * * * * * * *

Our main problem with half dollars, obviously, is their use in change and vending machines. Of the 250,000 wall-type change makers in use in the United States, approximately 190,000 are equipped to receive the U.S. half dollar and issue coins of lower denomination.

Fifty percent are in laundromats; forty percent are in food and refreshment vending machine locations, such as in offices, factories, and hospitals; ten percent are located adjacent to pay telephones, airport parking meters, automatic "car wash" establishments, etc., and other "un-tended" establishments.

In addition, approximately 470,000 "juke" boxes are equipped to receive the half dollar.

Several years ago, there was little demand for the half dollar. Most stores sent them back to the banks. Now the halves are almost non-existent. The general public seems to be hoarding the halves; as they get a half dollar, they evidently stash it away. Why they are doing this is hard to explain. Four hundred million Kennedy half dollars have

disappeared; they are not widely in circulation--and the fact they are not in circulation and are being held in "mint condition" puts them in a category as showing no promise to having especial value for many, many years, if even then. Think of the potential interest on their money which the hoarders of these coins will lose!

Related to the matter of people holding half dollars out of circulation, this also seems to apply to the silver quarters. Cain-Sloan Company is quoted in the Reserve Bank of Nashville report: "Have noticed some customers looking through change to pay with clad quarters instead of old quarters." Here in Washington, I have had reports from merchants that a large percentage of the quarters they find in circulation are the new clad quarters, and fewer silver quarters. Pulling these older quarters out of circulation, just to hold them, seems senseless. Twenty-five years from now they will still be worth only a quarter. And though I am not a coin collector, I would judge that these circulated quarters, too, will be a poor numismatic investment.

The dime has given us little trouble in recent months. At the Denver Mint we have been making the 90% silver dimes which have been released to circulation as fast as they have been made. At the Philadelphia Mint we have been making the clad dimes, which we are holding until we have a sufficient supply to release, and this will be very soon. The general availability of dimes is evidenced by the fact that the Reserve Banks are now experiencing some build-up in their inventory of this denomination.

As for nickels, we have plenty of them. This is purposely so. While we were waiting for authority to strike the clad coins, we entered into contracts for cupro-nickel strip and struck a substantial number of these coins to overcome what had previously been a serious nickel shortage, and to make available to the public a denomination which could reasonably substitute for the dime and quarter, if need be, during the transition period. We are happy there is an excess of nickels, and we want to keep it this way, at least until we are satisfied that the transition to the new coins has been completed.

Our cent production schedule in recent months has been kept at a minimum and has been geared to meeting actual needs rather than accumulations for a stockpile.

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Mr. Chairman, with your permission, I offer for the record a table showing the coin holdings at the Federal Reserve Banks during the last few Fridays, as compared with the same situation for a few years past. This table reflects the amount of coin which has flowed back to the Reserve Banks, as it normally does after a holiday season. You will note that flowback has been largely in the five and one cent denominations, with some improvement in dimes.

Storing the minor coin, if it continues to flow back in large quantities, may present something of a storage problem, which we are now working out with the Reserve Banks and, to a limited extent, with commercial banks.

Perhaps I can give you a better picture of how coin is moving by showing how much coin was received by the Reserve

Banks from member banks (excluding Mint shipments). Since the bulk of coin ordinarily paid out by the Reserve Banks is circulated coin, in my judgment these figures are better indicators than current Reserve Bank inventory figures. Sir, with your permission, I offer the following table, for the record.

The receipt of circulated coin by the Reserve Banks in fiscal year 1965, and in the first six months of fiscal year 1966, points to the fact that coin is not coming back to the Reserve Banks in any appreciable volume. For this reason, we think we still have a substantial production schedule ahead of us--a schedule which we are fully prepared to meet.

FEDERAL RESERVE INVENTORIES - WEEKLY REPORT

(In Pieces - Add 000)

	2-1-63	1-31-64	1-29-65	1-7-66	1-14-66	1-21-66	1-28-66
Halves	23,033	14,558	7,179	3,748	1,988	2,948	1,676
Quarters	89,067	53,745	28,352	47,919	84,007	107,413	136,771
Dimes	174,685	102,776	98,294	151,809	179,095	215,962	239,437
Nickels	105,129	42,554	61,308	758,333	780,573	801,625	823,999
Cents	327,787	100,257	311,861	289,245	285,245	326,906	388,834
Total	719,701	313,890	506,994	1,251,054	1,330,908	1,454,854	1,590,717

WEEKLY COIN PRODUCTION

	1-7-66	1-14-66	1-21-66	1-28-66
Halves	9,600	6,186	3,888	3,270
Quarters	41,920	59,284	54,825	54,696
Dimes	23,130	37,030	39,800	35,810
Nickels	4,360	9,404	12,860	11,948
Cents	10,895	48,820	74,025	80,245
Total	89,905	160,724	185,398	185,969

Bureau of the Mint
Coin Management Division
February 1, 1966

FEDERAL RESERVE BANKS AND BRANCHES

RECEIPTS FROM THEIR MEMBER BANKS AND OTHERS
(Excluding Mint Shipments)
(Pieces)

FISCAL YEAR	HALVES	QUARTERS	DIMES	NICKELS	CENTS	TOTAL
1961	254,428,190	2,036,668,248	3,726,646,770	2,706,591,820	1,934,082,200	10,658,417,228
1962	256,279,928	2,225,441,428	3,828,937,680	2,693,803,360	2,399,551,600	11,404,013,996
1963	241,947,460	2,099,061,132	3,635,121,660	2,312,117,140	2,260,014,900	10,548,262,292
1964	168,123,638	1,402,072,800	2,780,741,040	1,119,288,620	1,228,706,200	6,698,932,298
1965	12,602,006	431,309,552	1,549,955,710	753,990,940	1,050,724,600	3,798,582,808
1966 (1st 6 months)	1,290,346	233,409,612	810,086,400	831,069,540	808,490,600	2,684,346,498

Bureau of the Mint
February 1, 1966

PART II. STEPS TAKEN TO FURTHER ALLEVIATE OR FORESTALL ANY COIN SHORTAGES

(A) THE CRASH PROGRAM

In July, 1964, the Mint embarked on a "Crash Program" to end the coin shortage. The first step in this program was to place the Mints in Philadelphia and Denver on a continuous operating basis, 24 hours a day, seven days a week. At the same time approximately 50% of the space in the Assay Office in San Francisco was being converted for use as facilities for the production of 1¢ and 5¢ blanks.

At the beginning of the program the critical needs were for production equipment, space, and trained employees. Through cooperative efforts of the Department of Defense and the General Services Administration the Mint was able to locate and obtain 16 coining presses and 16 blanking presses, annealing and cleaning equipment, and other support equipment, including tools to equip a small machine shop in San Francisco.

Some specific actions taken to implement the crash program are:

(1) Obtained, without charge, production and support equipment with acquisition value of approximately $1,200,000 from the Department of Defense and the General Services Administration. Department of Defense converted the equipment for coinage production for the Mint at cost.

(2) Operated the Mints at Denver and Philadelphia and the San Francisco Assay Office 24 hours a day, seven days a week.

(3) Increased coining presses from 60 to 120. By June 30, 1966, 147 presses will be in operation. Blanking, blank annealing, and cleaning and other supporting equipment items were increased in proportion.

(4) Discontinued the production and sale of proof coins and uncirculated coin sets. Space and other resources released were used in the production of domestic coins.

(5) Utilized private industry in the purchase of 46,500,000 pounds of bronze strip for the production of cents and 41,500,000 pounds of cupro-nickel strip for the production of five cent coins. Also, contracts have been awarded for 115,000,000 pounds of clad strip for the production of the new clad dimes, quarter dollars and half dollars.

(6) Utilized other Government Agencies to the extent possible, including transfer of tool and die makers facing a reduction in force in the Defense Department, to the Philadelphia Mint where a build-up in coinage die capacity was critical to the coinage program. Also, the Frankford Arsenal annealed one cent blanks for the Philadelphia Mint from July, 1964, to June, 1965.

(7) Employees were increased from 1190 in June, 1964, to 1835 in December, 1965. Of the total employees on the rolls as of December 31, 1965, 335 held term appointments not to exceed two and one half years.

(8) Since the beginning of the Crash Program the Mint has made over 12 billion coins.

B. THE PUBLIC RELATIONS PROGRAM

Your committee, Mr. Chairman, recommended a public relations program emphasizing the temporary nature of the shortage. This we have endeavored to accomplish. In doing this, however, we have been conscious of those who are inclined to criticise us for talking too much, and those who think we haven't talked enough.

Our chief source of strength in making known to the American people the problems related to the shortage and the change-over to the new alloys has been the American Bankers Association. I am pleased that they are here today to testify before your committee. They have performed a truly great public service in this changeover period, especially in the educational program they have undertaken to acquaint everyone with the new coins. The fine public acceptance of these new coins is due in large measure to their help. I would like to say this, too, that they have done this at their own expense--not the taxpayer's.

Mr. Chairman, I would like to submit for your files a photograph of the Mint Exhibit at the ABA Convention last fall, when the bankers were first shown the new United States clad coins. Here too, I might mention that though it was an official Government exhibit, the ABA paid the cost of setting it up and they have since transferred it to us, where it is now on exhibit in the Main Treasury. Visitors at this exhibit are given a copy of a "Fact Sheet About New U.S. Coins", which I offer for the record.

As to our own efforts, public relations-wise, Assistant Secretary Wallace and I have appeared before numerous groups throughout the country, explaining the coin situation and acquainting people with the new alloy coins. We have sent material over to the Smithsonian where the thousands of visitors there can see the experimental coins which were the progenitor of our new clad coins.

As developments have occurred in coinage, we have endeavored to keep the public fully informed through Treasury Department press releases. Mr. Chairman, with your permission, I offer for the record a number of press releases which have been put out by the Treasury since our last hearing before you, dealing with this matter.

When word reached us that a coin broker was getting his coin from a vending machine company, we called the National Automatic Merchandising Association in Chicago. Their representative, Mr. Thomas B. Hungerford, called at our office and went all-out to put a stop to this practice. His efforts in this direction, and the cooperation of the vending machine industry given, are evidenced by the enclosed exhibits which I offer for the record.

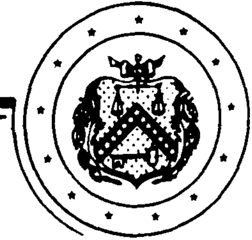
The numismatic press has done its part to keep down speculation in rolls and bags of coins, old as well as new.

Possibly less dramatic, but tremendously sincere and helpful, has been the word given to us by the "little people", whose coin clubs we have visited. With almost militant fervor, they have assured us that they are going to wait to get their specimens of the new clad coins, until after the

needs of commerce have been met. The Treasury has had wonderful cooperation from them. Though they, at times, were the whipping boy as a contributing cause of the shortage, you and I know they were much maligned.

I wouldlike to mention, too, Mr. Chairman, the fine spirit of cooperation we have received from the Federal Reserve Board as well as from all of the folks connected with the Federal Reserve Banks and Branches throughout the country. They have been hard pressed and harassed, but they have come through this with good spirit. They have done a splendid job of fostering good will and cooperation on the part of commercial banks, even though the coin stocks have been inadequate, for most of the time.

TREASURY DEPARTMENT



WASHINGTON, D.C.

July 28, 1965

FOR RELEASE AT 5:00 PM EDT
WEDNESDAY, JULY 28, 1965

TREASURY ANNOUNCES CONTRACTS FOR MATERIALS
TO START NEW COIN PRODUCTION NEXT WEEK

The Treasury today announced the signing of procurement contracts expected to permit production of the new dimes and quarters, authorized in the Coinage Act of 1965, to begin late next week.

The contracts signed today were the first three of a group of contracts for the material required for production of the new dimes and quarters.

The new coins will be issued late this year and early in 1966.

The new dimes and quarters will have faces of the same copper-nickel alloy used in the current five cent piece, bonded to a core of pure copper. They will be manufactured from strips of the three layers of metal, bonded together and rolled to the required thickness.

Mint Director Eva Adams said:

"We are announcing today the signing of the first of several planned contracts with suppliers for the composite metal strip required for the new dimes and quarters.

"Negotiations are underway with other potential suppliers of cupro-nickel clad strip and also for supply of the silver-copper alloy strip required for the new half dollar.

"The Mint expects to get into production of the new 25 cent piece before the end of next week. This quick start was made possible by advance contingency planning by the Mint, and by advance preparations undertaken at their own risk by potential suppliers.

"We intend to make some 3-1/2 billion pieces of the new subsidiary coinage in the first year of production, and double that amount, if needed, in the second year. We will begin with the new quarter, and follow with the new dime and half dollar.

"Both the Philadelphia and Denver Mints will produce the new dimes and quarters, but the new half dollar will be made initially at Denver. The San Francisco Mint facilities will be used in the beginning for one cent and five cent pieces. This will release much of the Denver and Philadelphia equipment for production of the new coins while still continuing the production of current silver coins at the existing high rates of output. All Mint coinage facilities will continue on a 24 hour a day basis.

"Full production of the current silver coinage will continue meanwhile, until the new coins become available in sufficient quantities to meet all demands. We have some 12 billion silver coins in circulation now and we will add to that amount during the coming year. The silver coinage will continue to circulate, side by side with the new coinage indefinitely into the future.

"We plan to place the new quarter in circulation late this year, and the new dime before mid-1966. Plans for the new half dollar, which will be 40 percent silver, are not yet complete, but output will begin at the Denver Mint as soon as supplies of silver clad strip become available. Until the Secretary of the Treasury determines that supplies of the new coins are adequate, none will bear mint marks."

Miss Adams announced signing of the following contracts:

-- An initial contract with Metals and Controls, Inc., Attleboro, Massachusetts a subsidiary of Texas Instruments, Inc. of Dallas, Texas, approximately $30 million, for production at Attleboro.

-- An initial contract with E. I. du Pont de Nemours and Company, of Wilmington, Delaware, approximately $3 million, for production primarily at Pompton Lakes, New Jersey.

-- An initial contract with the Olin Mathieson Company of East Alton, Illinois, approximately $9 million for production at East Alton.

When facilities for producing clad metal strip at the new Mint to be built at Philadelphia come into being in 1968, clad strip required for the new coins will be produced there. Facilities for production of clad strip are also planned for the present Denver Mint. Procurement of strip outside the Mint will continue until the necessary Mint equipment becomes available.

The contracts announced today will provide the Mint with about 85 million pounds of cupronickel-on-copper strip.

Average costs of cladding the metal strip procured under these and other contracts under negotiation will fall within the range of 40 cents to 70 cents per pound estimated by the Treasury in its presentation to Congress on the coinage bill.

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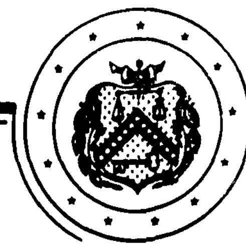
TREASURY DEPARTMENT



WASHINGTON, D.C.

August 11, 1965

FOR RELEASE AT 5:00 P.M., EDT
WEDNESDAY, AUGUST 11, 1965

TREASURY ANNOUNCES ADDITIONAL
CONTRACTS FOR COINAGE MATERIAL

The Treasury today announced signature of the first contracts for procurement of materials for the new silver half dollar, approved in the Coinage Act of 1965. A further contract for procurement of materials for the new quarter and dime has also been completed.

Production of the new half dollar, which will be the silver standard bearer of the new fractional coinage, will be started at the Denver Mint this fall. The new 50-cent piece will be a composite coin, with faces of 80 percent silver and 20 percent copper, bonded to a core of 21 percent silver and 79 percent copper.

Two contracts have been signed for the purchase of the silver-copper on copper-silver alloy for this coin. They were:

-- A contract for approximately $8 million with Engelhard Industries, Inc., of Newark, New Jersey, for production at plants in Newark and in Plainville, Massachusetts.

-- A contract for approximately $3 million with Handy and Harman, of New York City, for production in its plant at Fairfield, Connecticut.

A $3 million contract for the supply of the composite metal strip needed for the new quarter and dime has been signed with Composite Metal Products, Inc., of Eighty-four, Pennsylvania. The new 10 cent and 25 cent pieces will have faces of the same 75 percent copper, 25 percent nickel alloy from which the 5 cent piece is made, bonded to a core of pure copper. On July 27 the Treasury announced the signing of three contracts for this material, amounting to approximately $42 million.

(OVER)

Production of the new quarters will begin this month at the Philadelphia Mint. The new coins will be issued late this year, or early in 1966, according to the need for coins.

When facilities for producing clad metal strip at the new Mint to be built at Philadelphia come into being the composite materials for the new coins will be produced there. Facilities for production of clad strip are to be added in the Denver Mint. Procurement of materials for the new coins will continue outside the Mint until facilities for its production become available.

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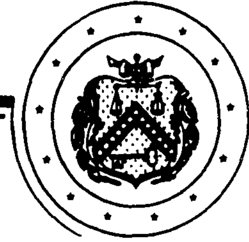
TREASURY DEPARTMENT



WASHINGTON, D.C.

Monday August 23, 1965

FOR RELEASE AT 10:30 A.M. EDT
MONDAY AUGUST 23, 1965

STATEMENT OF DIRECTOR OF THE MINT MISS EVA ADAMS
AT THE FIRST STRIKING OF COINS FROM THE NEW COINAGE MATERIAL
U.S. MINT, PHILADELPHIA, PA.
AUGUST 23, 1965 -- 10:30 A.M.

Production of the new quarter, authorized by the Coinage Act of 1965, started today at the Philadelphia Mint.

The new quarter will have the face of the same copper-nickel alloy used in the current five-cent piece and will be bonded to a core of pure copper. It will be manufactured from strips of three layers of metal, bonded together and rolled to the required thickness.

Production of the new fifty-cent piece of silver copper clad on silver copper is scheduled for sometime in November, at the Denver Mint. It will continue to be made of silver and copper, but will become a composite coin with the silver content reduced from 90 percent to 40 percent.

The ten-cent piece will be the last of the new alloy denominations to enter production. Having the same composition as the new quarter, the dime is scheduled to be struck in December. The new coins will all bear the 1965 date.

Reactivation of minting operations at the San Francisco Assay Office has been set for September 1, 1965. The one-cent piece to be struck there will constitute the first coins produced at the Assay Office since 1955 when coining operations were discontinued.

None of the new coins will be released to the public until a sizeable supply is on have for distribution. Meantime, the Mint is continuing production of the present coinage alloy, as authorized by the Coinage Act of 1965.

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·REASURY DEPARTMENT

WASHINGTON, D.C.
Monday, August 23,1965

FOR RELEASE AT 10:30 A.M. EDT
MONDAY, AUGUST 23, 1965

STATEMENT OF ROBERT A. WALLACE,ASSISTANT SECRETARY OF THE TREASURY,
AT THE FIRST STRIKING OF COINS FROM THE NEW COINAGE MATERIAL
U.S. MINT, PHILADELPHIA, PA.
AUGUST 23, 1965 -- 10:30 A.M.

The start of coin production from new coinage materials authorized by Congress this summer is a source of great satisfaction to the Treasury Department. It represents the result of a two year effort to develop and obtain the authorization of a satisfactory substitute for silver in the dime and quarter.

Had Congress not authorized the new material, Treasury stocks of silver would have been exhausted in less than three years. The elimination of silver in the dime and quarter, and the reduction of the silver content of the half dollar will make our silver supplies for coinage sufficient for the forseeable future.

The new coins will have precisely the same purchasing power as current coins. They will work in all existing coin operated devices. From an esthetic point of view, the new dimes and quarters will be just as attractive and durable as the old.

The new half dollar, which will continue to contain silver, will be nearly indistinguishable from existing coins of this denomination.

All new coins will bear the date 1965.

The first of the new coins minted will be the quarter. Aside from the one-cent and five cent pieces, this is the key coin for commerce. By the end of December we expect to produce a half billion of these new quarters, a year's supply. These will be released through the banking system late this year or early in 1966. Production of the new dime and half dollar will begin

(MORE)

late this year. Both coins are expected to be released before mid 1966.

Despite the large production of new quarters we are actually increasing the output of current quarters and dimes by 25 percent. Mint and Federal Reserve Bank inventories of these coins are nearly double the levels of a year ago. Nevertheless, the Treasury is continuing to increase their production in order to reduce any potential possibility of shortages in the future.

The Treasury is deeply grateful to the Congress for its quick action in the program, to the Bureau of the Mint for its help in the development of the new materials, especially to Mint employees for production records beyond our most optimistic expectations, and to our suppliers for their understanding of our problem and ability to produce the new material quickly.

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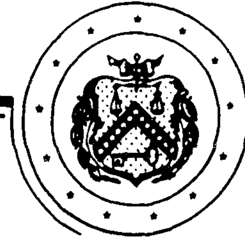
TREASURY DEPARTMENT



WASHINGTON, D.C.

September 16, 1965

FOR RELEASE A.M. NEWSPAPERS
FRIDAY, SEPTEMBER 17, 1965

GROUNDBREAKING FOR A NEW
MINT AT PHILADELPHIA

Ground will be broken today (Friday, September 17, 11:30 a.m. E.D.T.) in Philadelphia for the world's biggest and most modern Mint, by Joseph W. Barr, the Under Secretary of the Treasury. Others participating will include James H. J. Tate, Mayor of Philadelphia, Robert A. Wallace, Assistant Secretary of the Treasury, Miss Eva B. Adams, Director of the Mint and Michael H. Sura, Superintendent of the Philadelphia Mint.

The new $37 million plant will take the place of the present Philadelphia Mint, now 64 years old.

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F-199

// TREASURY DEPARTMENT

WASHINGTON, D.C.
September 1, 1965

FOR RELEASE AT 10:00 A.M., PDT
WEDNESDAY, SEPTEMBER 1, 1965

STATEMENT BY DIRECTOR OF THE MINT MISS EVA ADAMS
AT CEREMONIES REACTIVATING MINTING OPERATIONS AT
THE SAN FRANCISCO ASSAY OFFICE
SEPTEMBER 1, 1965, 10:00 A.M., PDT

Reactivation of minting operations at the San Francisco Assay Office, authorized by the Coinage Act of 1965, began today, September 1, 1965. The one-cent pieces to be struck here will constitute the first coins produced at the Assay Office since 1955, when coining operations were discontinued. Four new stamping presses are to be in operation. Later, five-cent pieces will also be struck at the San Francisco Office.

Production of the new quarter started August 23 at the Philadelphia Mint. The new quarter has the face of the same copper-nickel alloy used in the current five-cent piece and is bonded to a core of pure copper. It is manufactured from strips of three layers of metal, bonded together and rolled to the required thickness.

Production of the new fifty-cent piece of silver copper clad on silver copper is scheduled for later in the year, at the Denver Mint. It will continue to be made of silver and copper, but will become a composite coin with the silver content reduced from 90 percent to 40 percent.

The ten-cent piece will be the last of the new alloy denominations to enter production. Having the same composition as the new quarter, the dime is scheduled to be struck later this year.

The new coins all bear the 1965 date. None of them will be released to the public until a sizeable supply is on hand for distribution. Meantime, the Mint is continuing production of the present coinage alloy, as authorized by the Coinage Act of 1965.

The newly minted pennies from San Francisco, however, like those made in Denver and Philadelphia, will go immediately into circulation. The penny and the nickel are not changed in composition by the new legislation.

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TREASURY DEPARTMENT
Washington

FOR RELEASE AT 11:30 A.M., EDT
FRIDAY, SEPTEMBER 17, 1965

REMARKS OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
AT GROUNDBREAKING FOR A NEW MINT AT
PHILADELPHIA, 11:30 A.M. ON FRIDAY,
SEPTEMBER 17, 1965

Mr. Chairman, Mayor Tate, Members of the Congress, Commissioner Cohen, Miss Adams, Mr. Sura and other friends gathered here, I very much hope that you will believe that I do much more than express a well worn convention when I tell you that I am delighted to be here to share with you a propitious event. The facts are that this is a delightful and propitious occasion, and that I take a very real pleasure in being with you to share in it.

Because getting started on the building of this new Mint is a matter of such importance to the City of Philadelphia, and to the nation at large, I want to draw attention to some, at least, of the people present here today who have made it possible for us to get started at this early date.

I will begin with Mayor James Tate, because without his work on its behalf, we could not be here today to break ground for the new Mint. At the time in 1963 when Mayor Tate set aside this site for a new Mint, as part of the redevelopment of downtown Philadelphia, the urgency that has since increasingly overtaken it, in the form of a coin shortage, was only beginning to be felt. However, the existing 64-year-old Mint was getting no younger, and Philadelphia wanted to get on with its renewal program. After 1963, as the coin shortage worsened, increased Mint capacity became a pressing national need.

Secretary Wallace, Mint Director Adams and the Superintendents of the Philadelphia and the Denver Mints -- Mr. Sura, Superintendent of the Philadelphia Mint is here with us -- turned to, and, with the Mint's fine staff in Washington,

in the Philadelphia and Denver Mints, and in the San Francisco Assay Office have done what can only be described as a heroic job. They succeeded in pushing existing Mint production capacity beyond all previous estimates in meeting, as they have, the mounting demand for coins to keep our growing and changing economy going smoothly at the retail level.

But despite these ingenious and massive accomplishments, our existing coin making capacity is definitely not adequate to satisfy the demand for coins on an efficient and economical basis.

It was for these reasons that the Philadelphia Redevelopment Authority re-drew the boundaries of the Independence Mall Urban Renewal Area late in 1963 to move this site on which we stand today to the immediate action stage.

This involved relocation of some 70 businesses, which Mayor Tate managed with skill and energy to get relocated so that this site could be cleared, as it was, by the middle of August this year.

Another hard worker in this vineyard has been Representative Byrne, in whose district we stand. I served with him in the Congress, as I did with Congressmen Barret, Nix and Toll, also of the Philadelphia delegation. I did not have the pleasure of serving in the Congress with Representative Green, but I know from my experience in the Executive Branch that he and the rest of the Philadelphia delegation in the House, stand out for the hard work and the zeal with which they look out for this city's interests.

Let me add just one more, and very well deserved, word of thanks. This is to the Old Philadelphia Development Corporation, headed by Mr. William Day, which is developing the Mall. Much that we are doing today had its roots in the efforts of Mr. Day and of the Old Philadelphia Development Corporation, and I would not want this role to be forgotten.

The new Mint that will go up on this site is scheduled for coin production by mid-1967. It is going to cost 37 million dollars. It will be the world's foremost Mint: the world's biggest and the world's most productive.

The new Philadelphia Mint will be the fourth Mint in this city, which was the site of the Nation's first Mint.

The first Philadelphia Mint, in turn, was the first building erected in the United States for public use, under authority of the federal government.

The site for the first United States Mint, at Seventh Street near Arch -- only a few hundred feet from where we will break ground today for the fourth mint structure in Philadelphia -- also had to be cleared, but under somewhat different conditions. On July 19, 1792, destruction began on an old distillery building which was then located on the site chosen for the first Philadelphia Mint. Some of the junk of the old distillery was sold for one dollar, which the Mint Director, David Rittenhouse, directed should be laid out for punch for the bricklayers and other workmen.

After forty years at the original location, the Mint came uptown to a newly erected building at the northwest corner of Chestnut and Juniper. The cornerstone for this was laid July 4, 1829, but it was not finished and occupied until 1833.

By the end of the 19th Century the Nation again needed a bigger Mint at Philadelphia. So the Philadelphia Mint now to be replaced was begun in 1898 and completed in September, 1901.

The new Philadelphia Mint is a prime example of what President Johnson is demanding throughout the government: more service, and better service to a growing country, at lower cost. That is a big order -- most of President Johnson's orders are on the big side. But the new Mint will demonstrate, as is constantly being demonstrated, that the President's insistence upon these hard accomplishments sets tasks that are difficult, but not impossible. We are achieving more and better service, meeting the growing demands of a growing population and of a growing economy, at lower costs, and this Mint will be an outstanding example.

We are using ingenuity to try to make the Mint, when it enters operations, the last word in coin production. To do this, Secretary Wallace and Mint Director Adams, who are responsible for planning the new Mint, have approved orders for the building of an entirely new type of coin press, capable -- if it works as it is expected to work -- of turning out the fantastic number of 10,000 pennies a <u>minute</u>: not an

our, or a day, but a minute. That compares with production of 300 a minute, the best existing machines can do.

No one knows yet, for sure, whether these presses will immediately perform up to expectations, or whether they will require a development period. But we are planning for them on a contingency basis. At the same time, Mr. Wallace and Miss Adams have developed parallel plans for the installation of other facilities to yield the required coin production, if the new type of penny coin presses cannot be brought into use immediately.

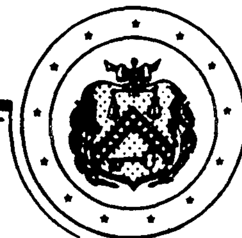
This is merely one example of many new features of the Mint that is now to be built in this city. It will be capable of doubling the capacity of the present Mint, without a bigger payroll. It will produce at 15 to 20 per cent less cost per unit of output. It will allow an unimpeded production flow, through a first floor production space 50 feet high and 600 feet long, with almost as much additional space on other floors for laboratories, offices, die making, coin storage and other supporting activities.

The new Mint will be able to produce the three layer metal strip needed for our new dimes, quarters and half dollars, as well as the bronze alloy strip metal needed for pennies and the cupronickel strip needed for five cent pieces. The material for our new coins must be bought outside the Mint until this plant comes into production. The new Philadelphia Mint will be capable of making coins of all denominations, from the melting, casting, and rolling of coinage alloy to production of the finished coin.

At the new Mint, ingots that are 17 feet long and that weigh 5,400 pounds will be cast, compared to the present capability for casting ingots five feet long, weighing 400 pounds. The new Mint's strip making machines will roll these ingots to finished coin thickness five times as fast as at present. It will be fully mechanized for the handling and storage of materials. The coins produced by the new Mint will be weighed automatically, and automatically inspected. The new Mint's capacity will be such that it can serve the coin needs of the whole country east of the Mississippi, making a considerable saving in the costs now incurred in moving coin materials, coin blanks and coins to and from the Philadelphia and Denver Mints and the San Francisco Assay Office.

A good deal more could be said, for the new Mint will be a treasure house of advanced production and handling techniques, and will have a good many other features besides: for instance, all of its operations will be visible from the visitors' gallery.

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 30, 1965

DVANCE FOR USE IN SUNDAY PAPERS
F OCTOBER 31, 1965

BACKGROUND TO WHITE HOUSE ANNOUNCEMENT THAT
CIRCULATION OF THE NEW 25 CENT PIECE
WILL BEGIN ON NOVEMBER 1

The new quarter was placed in circulation when a massive nitial supoly was available, backed up by a very large production tream.

The Mint will be able to provide approximately half a billion dditional pieces of the new coin for circulation within two months f the initial distribution.

The traditional silver dimes, quarters and half dollars are :o circulate side-by-side, interchangeably, with the new coinage

The silver coinage will not be withdrawn. On the contrary, ›roduction of silver coins is continuing at high rates, and at .east 13 billion pieces of silver coins will be in circulation ›efore production is ended. Much of this circulating silver oinage will have been made in the last three years of greatly .ncreased output, and these coins can continue in use for the .ormal 25 year life of a silver coin.

The Treasury still has very large stocks of silver -- nearly 00 million ounces -- and is authorized by the Coinage Act of 965 to use these stocks to keep the price of silver below the oint at which it would become profitable to melt the silver oinage for its silver content.

The Coinage Act of 1965 gives the Treasury authority to orbid the melting or export of United States coins. This uthority has not been exercised.

-253

The new dime, to go into circulation early in 1966, will be ıde of the same alloy as the new quarter.

The new half dollar will be faced with layers of 80 percent ilver and 20 percent copper, bonded to a core of approximately) percent copper and 21 percent silver, giving an overall 40 per- ent silver composition.

Like the new quarter, the new dime and half dollar will also ave the same designs as the silver coins they succeed. All the ew coins will be the same size as their silver counterparts. The ime and quarter are 9.3 percent lighter and the half dollar is percent lighter.

The 90 percent silver dollar remains without change as a part f the United States coinage, but the Coinage Act of 1965 forbids roduction of silver dollars for five years.

Pennies and nickels are unchanged.

The non-silver dimes and quarters, and the low silver content alf dollar, were adopted in the Coinage Act of 1965 due to a world ilver shortage. In 1964, new silver production was less than half s much as total annual silver usuage in the Free World. Most other ations have removed most or all the silver from their coinage in ecent years.

The United States was able to continue making 90 percent silver imes, quarters and half dollars because the silver could be supplied rom stocks owned by the Treasury. The changeover became necessary n the United States when, early this year, the Treasury's silver tock became equal to less than a three year supply at current ex- anded rates of demand for coinage.

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FOR RELEASE SUNDAY A. M. OCTOBER 31, 1965

Office of the White House Press Secretary
(Austin, Texas)

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THE WHITE HOUSE

STATEMENT BY THE PRESIDENT
ON INITIAL DISTRIBUTION OF THE
NEW 25 CENT PIECE

President Johnson announced today that circulation of the new 25 cent piece authorized by the Coinage Act of 1965 will begin Monday, November 1.

The new -- non-silver -- quarter dollar will be added to the circulation of the traditional 90 percent silver quarter. Both the old and the new quarters are to circulate together.

Approximately 230 million pieces of the new quarter will be distributed during the week beginning November 1. Initial distribution will be backed by production that will rise from 28 million to 60 million pieces a week during November, and will be still higher thereafter.

The number of new quarters ready for initial distribution is 10 times current inventories of 25 cent pieces available for use. The supply of quarters will be augmented by continued production of silver 25 cent pieces.

Introduction of the non-silver quarter will make the first basic change in the Nation's coinage since the United States monetary system was established in 1792. All coins above five cents value since then have contained 90 percent silver.

The new quarters will by placed into use in the way that coins normally move into circulation, by distribution, on the basis of needs for coins, through the 36 Federal Reserve banks and branch banks to commercial banks, and from commercial banks to individuals and businesses. As the new coinage is to circulate interchangeably with silver coins, deliveries of quarters to commercial banks, now and in the future, will consist of both the non-silver and the silver coins.

The Mint has allocated initial supplies of the new quarters to the Reserve banks on the basis of the population of the areas served by each Reserve bank or branch bank. Plans call for deliveries of further supplies of the new coin from the Mint to Reserve banks to continue on this basis.

Faster than anticipated production of the new quarters permitted their introduction about a month earlier than previously expected. The initial 230 million of the new coins being distributed by the Federal Reserve Banks was made in 70 days following the beginning of production on August 23. This initial supply is equal to a third of the record output of 714 million quarters produced in the full 12 months of fiscal year 1965, which ended last June. Production of the new quarters will rise to a quarter of a billion pieces a month hereafter.

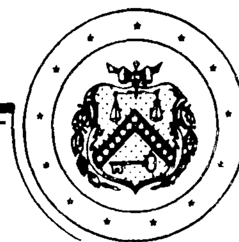
The new quarter dollar is a three layered coin. The outer faces are the same alloy used for the five cent piece -- 75 percent copper and 25 percent nickel. The cupronickel faces are bonded to a core of pure copper, giving the new coin a copper colored edge.

The new 25 cent piece is full legal tender, equal in all monetary respects to the silver quarter. It was engineered to work in all coin operated devices set to operate with silver coins.

The new quarter is the same size as the silver quarters, and bears the same design. The head of George Washington appears on one side, with the date, and the words "Liberty" and "In God We Trust;" on the other side, an eagle with spread wings, clutching a bundle of arrows, above crossed olive branches, and the words, "Quarter Dollar," "United States of America" and "E Pluribus Unum."

All United States silver coins now being produced are dated 1964. The new coins will be dated 1965 until all shortages disappear.

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)

F-319

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

National Automatic Merchandising Association

7 SOUTH DEARBORN STREET, CHICAGO, ILL. 60603 TELEPHONE: (312) FINANCIAL 6-0370

N A M A

November 15, 1965

MEMBERS LETTER NO. 1175

THE TREASURY DEPARTMENT HELPED US - NOW WE CAN HELP THEM!

Speculation about coinage needs for the Christmas retailing boom has produced some sales "pitches" to banks from coin exchanges and dealers, offering ample supplies of coins at a premium price.

Understandably, such "for-profit" promotion has caused some concern at the U. S. Treasury Department and has irritated some Congressmen, since it is not in the public interest.

This type of advertising can do serious damage to the reputation of the vending industry in important Washington circles. Some of our friends in Congress are grumbling, even to the point of suggesting legislation "to curb profiteering in coins". There is a strong possibility of an investigation by the Secret Service to determine where the advertised coins are coming from.

> We at N A M A know that nearly all vending operators have set up strict policies against selling coins at a premium, and that a majority of companies is cooperating fully with the Treasury Department's request to speed coin circulation by assisting locations and local banks as a public service through prompt collection of coins.

Yet advertisements have appeared offering coins "from vending machines".

Without the Treasury Department's recognition that coins must work in vending machines, our industry would be in turmoil today (now that the new silverless coins are in circulation). Every vending operator, in turn, owes the Treasury an obligation to see that coins are put back in circulation quickly through regular channels, and are not sold at a profit by anyone - whether the offender be in vending or in any other type of coin business.

> If you learn of offers to sell coins at a premium, promptly notify N A M A of the circumstances. If your local news media carry a story about such sales, promptly call them and explain your policy, whether vending is mentioned or not.

We have nothing to gain - and much to lose - if vending operators sell coins at a premium at any time!

Thos. B. Hungerford
Executive Director

FROM: Public Relations Department
National Automatic Merchandising
7 South Dearborn Street
Chicago, Illinois 60603
(312) FInancial 6-0370

By Walter W. Reed For Immediate Release

Vending Industry Denounces Coin Sales At A Profit,

Supports Measures to Recirculate Coins Through Banks

CHICAGO, November 18 - - Profiteering from the sale of coins in bulk to retail establishments, banks and similar users drew criticism today in a statement issued by the National Automatic Merchandising Association, national trade group of the $3.5 billion automatic vending industry.

"Although the supply of coins is considerably improved over a year ago, some short-sighted businessmen might reach for a few extra dollars by selling coins at a mark-up to retailers or banks during the busy Christmas season," said Thomas B. Hungerford, executive director of the association.

"The vending industry has for several years taken measures to recirculate coins quickly to banks and retail stores without any charge," Hungerford said.

"While a few selfish individuals might indulge in such practices, this is strictly against the established policies of most vending firms. Organizations which try to make a profit out of coin shortages definitely act against the best interests of the public," he stated.

Hungerford said that reports from the association's members across the country indicate no effect on vending firm sales as a result of coin shortages.

DAVID D. DAYTON

ASSISTANT TO THE PRESIDENT
AUTOMATIC RETAILERS OF AMERICA, INC.

November 19, 1965

Mr. Thomas B. Hungerford
Executive Director
National Automatic Merchandising Association
c/o Ambassador Hotel
Los Angeles, California

Dear Tom:

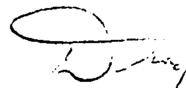
In connection with the coin shortage and the silver situation, we are enclosing copies of memoranda and instruction to our field people in the early days. We have not issued any policy statements since the new coinage regulations were passed by Congress.

In view of the recent development mentioned in your letter to Bill Fishman, we are circulating an announcement to over one thousand managers throughout the country. As soon as this statement is in final form, we will send you a copy.

I tried to get in touch with you by telephone today seeking your suggestions for this new policy directive, but was unable to reach you because of the activity with the opening of the western exhibit.

We welcome any suggestions from you or your staff on this entire question.

Sincerely yours,

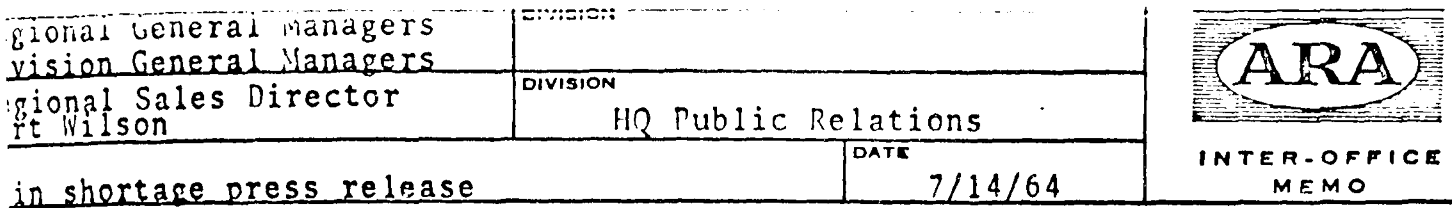


David D. Dayton
Vice President

DDD:hh

cc: Messrs. W. Fishman
Walter Reed

LOMBARD AT 25TH ST., PHILADELPHIA, PENNSYLVANIA 19146


gional General Managers
vision General Managers
gional Sales Director
rt Wilson

DIVISION
HQ Public Relations

DATE
7/14/64

in shortage press release

ARA

INTER-OFFICE MEMO

e coin shortage is making news in the daily papers in the key cities in ur region. In some cases vending operators and machines have been justifiably accused of contributing to that shortage. This information not correct.

order to help remedy the situation and also to provide you and ARA with ssible exposure in these newspapers, I'm attaching a suggested press lease. It should be typed on your letterhead and on those of any visions within your region as you see fit. The stories can be individ- lized by typing "For the (name of newspaper)" below the line "For mediate Release." The blanks should be filled in by quoting either the gional general manager or the division general manager.

ese stories should be mailed to the principal daily newspapers in the ties within your region or delivered personally if you happen to know e of the editors. The envelopes should be addressed to the Business ws Editor at large papers, City Editor at smaller ones.

ll appreciate receiving tear sheets of any stories that to get printed.

Bert

'hh
:.

On Region or Division letterhead

For Immediate Release

VENDING OPERATORS KEEP COINS
CIRCULATING, ARA OFFICIAL SAYS

Vending machines help keep coins circulating and are a means of combatting the current shortage, according to ____________________, ____________________ of ARA Service ________________.

"Less than one coin in every 200 is tied up in vending machines at any one time," ______________ said. "Vending is a $3 billion annual industry in the United States. Most vending operators collect from their machines about 150 times a year. That means about $22 million in coins will be found in all machines at any one time. At an average of ten coins a dollar, that's 220 million coins. With 45 billion coins in circulation, this figure is not significant."

____________________ cited a study recently completed by Arthur D. Little, Inc., for the National Automatic Merchandising Association. The firm found no relationship between any shortage and vending. It put chief blame on population increase and greater gross national product without a similar boost in coinage. Miss Eva Adams, director of the mint, has also said she didn't blame vending machines.

"The vending industry wants to keep coins in circulation," _________ said. "Our gross sales depend on pennies, nickels, dimes and quarters. These are our working capital. Merchandise vending is a thin profit, high volume, fast turnover type of business. Cash must be available for both merchandise and payrolls, so coins are removed from the machines as quickly as possible and deposited. The industry is a principal supplier of coins to banks, retailers and others in need of coins."

AUTOMATIQUE INTER-OFFICE CORRESPONDENCE

TO : Subsidiary Manager OFFICE: All Offices	REFERENCE SUBJECT Coinage DEC 1 1965	FROM : B. Glassgold OFFICE: Kansas City DATE : 1/19/65

At a recent meeting of N A M A, which Mr. Stevens attended on the above subject, much emphasis was placed on company policies with respect to the problem. There were strong recommendations that any sale of coins should be discouraged because of the effect it may have in the area of public relations for the industry as a whole and any company in particular.

During the holidays, because of the great pressure, some operating companies sold coins to various stores, banks, etc. This practice is not recommended.

However, because of the coin shortage, there are some practices that may well help build the esteem of the company such as:

1. Developing closer local banking relationship by making coins available to your bank when they require it. Perhaps the bank would pick up the coins and in that way save any delivery costs.

2. Arrange with your bank to make your coins available to your customers.

3. Arrange to make coins available directly to your customers and have them pick up the coins.

Perhaps you have developed some other programs that have merit.

We would appreciate knowing what you now do and any recommendations you may have that could be recommended to other subsidiaries.

BG:pm

REFER TO	NOTED
FILE	

COPIES TO: A. D. Stevens
W. A. Rush
Max Lamb

PREPARE ORIGIN[AL AN]D COPIES IN BLUE — FILE COPY IN YELLOW FORM G 101-4

CABLE ADDRESS: ROVEND
ALGONQUIN 4-7350

THE Rowe CORPORATION
31 EAST 17th STREET, NEW YORK, N.Y. 10003
World's Largest Operator of Cigarette Merchandising Machines

November 22, 1965

NOV 23 1965

Mr. T. V. Hungerford
National Automatic Merchandising Assn.
7 S. Dearborn Street
Chicago 3, Ill.

Dear Tom:

I think your letter No. 1175 to the operators is very appropriate and well-advised at this time.

Just to make sure that our branches read it carefully and adhere to it, I have sent them the enclosed memorandum.

Sincerely,

THE ROWE CORPORATION

Arthur Gluck

ag/rkm
enc

Arthur Gluck

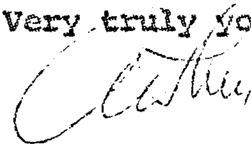
November 22, 1965

ALL BRANCHES

The attached photostat of N.A.M.A.'s letter No. 1175 is something that every operator should scrupulously follow.

So that there can be no possible slip-up, we want you to know that as a matter of policy you are NOT to sell coins to anyone. They have to be handled through your regular banking source and your customers, the same as we always have in the past.

Very truly yours,



ag/rkm

enc

cc: Tom Hungerford

INTERSTATE UNITED CORPORATION
4301 WEST TOUHY AVENUE • LINCOLNWOOD, ILLINOIS 60646

ALEX KRAMER
PRESIDENT

November 18, 1965

Mr. Thomas B. Hungerford
Executive Director
National Automatic Merchandising
Association
7 South Dearborn Street
Chicago, Illinois 60603

Dear Tom:

I am enclosing a copy of the Management Bulletin which I have just sent to our field organization.

I want to do everything that I can to cooperate in this important program. Please let me know if I can be of any further help.

Sincerely,

Alex Kramer

AK:LL

united
corporation

Management Bulletin

November 19, 1965

TO: All Branch Managers

FROM: Alex Kramer

As a member of the NAMA Coinage Committee which worked closely with the U. S. Treasury Department in helping obtain compatible coinage, I now ask for your continued cooperation in a matter of increasing concern to the Treasury Department, members of Congress, and the vending industry.

Speculation about coinage needs for the Christmas retailing boom has produced some sales "pitches" to banks from coin exchanges and dealers, offering ample supplies of coins at a premium price. There have been some advertisements offering coins "from vending machines."

In my memorandum of July, 1964 on this subject, I stressed three points:

1. Under no circumstances should any company employee ever be involved in coin profiteering.

2. Make certain that all coins get to the bank as quickly as possible.

3. Make coins available at no extra cost to customers who need them.

It is extremely important that we extend an extra effort to combat profiteering in coins, especially during the Christmas season. If you learn of offers to sell coins at a premium, please notify the N.A.M.A. of the circumstances.

Our industry has nothing to gain--and much to lose--if vending operators sell coins at a premium. Let us be certain that we support N.A.M.A. in this important program of combating coin profiteering.

Interstate United Corporation

Management Bulletin

TO: All Branch Managers

FROM: Alex Kramer

Recently you received a bulletin from N.A.M.A. discussing their policy on the coin shortage that exists in this country.

Interstate fully subscribes to N.A.M.A.'s position and supports it wholeheartedly. Under no circumstances are any of you to do anything which could possibly be construed as profiteering on the coin shortage.

There are two things you can do, however, that can help to alleviate the situation and to improve our image in regard to it.

First, make certain that your coins get to your regular bank as promptly as possible. Secondly, make available at no extra cost coins to those of your customers who may have a need for them. These should not be delivered by you but should be on a C.O.D. basis if your customer would like to call at your place of business to buy coins.

No other arrangements for the disposition of coins is authorized and we expect you to follow this policy rigidly.

AK:brk

July, 1964

PRESIDENT'S POLICY LETTER #11

NOV 22 1965

To : Chief Executives, Macke Operating Companies

Subj: Coin Shortages

Macke Memorandum MM 9-64 dated June 18, 1964, is hereby cancelled and revoked.

Macke policy in regard to the current shortage of coins and the growing shortage of silver for coin production is identical with NAMA policy as expressed in NAMA MEMBERS LETTER No. 1155 dated November 13, 1964. We urge you to familiarize yourself with said letter and to act accordingly.

Here is the key paragraph:

> "To profit from a national shortage is near-sighted foolishness. Critics of such practices could well maintain that 'it is no more ethical than black-marketeering.' Gain good will in your community by putting coins back in circulation through normal banking channels, and by announcing that you're doing so. Yielding to the temptation of 'cashing in' on the shortage can result in far more damaging bad publicity than the unthinking operator may realize. It's unlikely that many will yield. It's against the public interest. It's plain bad public relations behavior."

Part of the coin shortage has developed because of hoarding by collectors. Hence none of your coins should be sold to collectors. Naturally, if you can assist Macke customers who have coin shortage problems, it would be good business to do so.

A. Goldman

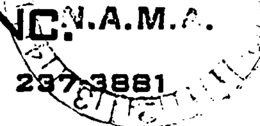
AG:eg

November 25, 1964

Distribution I, II, III, IV

SERVOMATION OF CENTRAL CONNECTICUT, INC.

19 NORTH GEORGE STREET • MERIDEN, CONNECTICUT 06450 • PHONE 237-3881



N. A. M. A.
7 South Dearborn St.,
Chicago, ill. 60603

11-19-65

DATE NOV 22 1965

Gentlemen:

In reference to MEMBERS LETTER No. 1175, please be assured that we are forwarding to the three banks that handle our account, all collections as promptly as they are counted. We do not favor profiting on the sale of coins and have so notified all personnel. This we would like to have go on record.

J. Fitzgerald, Mgr.

INSTRUCTIONS TO SENDER:

SIGNED

INSTRUCTIONS TO RECEIVER:

PART III. PROSPECTS FOR THE FUTURE

(A) PRODUCTION CAPABILITIES OF THE MINT

Philadelphia

Your Committee, as well as the Committee on Appropriations and others, have repeatedly urged the Mint to continue its efforts with industry to develop the most modern machinery possible for installation in the new Philadelphia Mint. Mint technical personnel, in conjunction with our engineering consultants have been very active in seeking and evaluating new developments. While this is a never-ending process, and we will be making improvements continually, we are confident that the new Mint will contain the most up-to-date processes and equipment available.

The new Mint, to be completed in July, 1967, will have a production capability of 2 billion coins per shift per year, or a total capacity --- on a 24-hour, 7-day week basis --- of about 8 billion. This capacity will be entirely "in-house;" that is, no purchases of strip from industry will be required. Production facilities will include melting,

casting, rolling, and coining of all coins, plus the capability to produce the new clad strip. While the <u>basic</u> process will be essentially the same as the present Mints, great innovations are planned for the equipment.

Among the more significant innovations we have planned are the following items. Raw material (copper, zinc, nickel, and process scrap) will be sheared into small pieces, conveyed to storage bins, metered and weighed into batches ("make-up"), conveyed and discharged into the melting furnaces --- all automatically. The molten alloyed metal will be discharged into semi-continuous casting machines which will cast ingots 18 feet long, 16 inches wide, and six inches thick --- about 16 times larger than present ingots. They will weigh 6600 pounds; our present ingots weigh 400 pounds. The ingot will be re-heated, by electric induction, and will be rolled red-hot in a rolling mill controlled automatically with punch-cards and X-ray gauges. It will be "scalped" (surface milled, to remove imperfections and scale) and passed through two more rolling mills. The material for clad coins will then be processed through a

still-to-be-determined cladding line.

Following stamping, which will be discussed below, the finished coins will pass through novel electronic "scanning" devices --- currently under development --- which will inspect the coins as effectively and much more rapidly than our present visual inspection. Coins will be counted and bagged (or, possibly, placed in other containers) automatically, and conveyed to vaults for storage. Pending further study, special equipment and/or special containers may be utilized for transporting coin from vaults to trucks and for shipping to the Federal Reserve Banks.

The most exciting innovation is the new process being developed for stamping or coining. The preliminary engineering has been completed and prototypes (full-size models of the key operations) have been made and successfully demonstrated. The actual production equipment is now in the design stage, and we expect to have it completed and ready for testing by late summer. Thus, progress has been excellent and we are very confident that the new machine will be ready for full-scale

operation before the new Mint is completed.

The new stamping machine, or coin-roller, is expected to produce coins at the rate of 10,000 per minute --- contrasted with 300 per minute for conventional Mint presses and about 600 per minute for newly-designed stamping presses. In addition to the great increase in output, the coin-roller will eliminate the need for the current operations of blanking, riddling, and blank annealing. This new process and equipment --- which will be started on pennies, but may be utilized for other denominations --- will revolutionize the art and science of coin-making.

Denver

Denver's current "in-house" (without purchases of strip) capability is about 1.0 billion coins per shift per year, or roughly 4.0 billion on a 24-hour, 7-day week basis. Its stamping press capacity in a few months will be about 1.6 billion on a single shift basis, or 6.4 billion total. In order to make the Denver Mint self-sufficient, and to eliminate the high costs of purchasing strip and/or shipping strip from Philadelphia in the future, it will be necessary

to provide a cladding capacity in Denver. Furthermore, it will be desirable to modernize the Denver processes and facilities to make them comparable to the operating economies and efficiencies anticipated in Philadelphia. Therefore, the Mint is currently undertaking a study to determine what will be required to provide cladding facilities and to incorporate the Philadelphia innovations at Denver.

San Francisco

The San Francisco Assay Office (now also operating under Public Law 89-81 as a Mint) will have a stamping capacity of about 1.4 billions coins per shift per year, or a total of about 5.6 billion annually. Since no melting, casting, or rolling facilities are available, all the strip for San Francisco must be acquired from outside purchases or from the other Mints. Thus, in line with legislation, we plan to utilize San Francisco's coining capacity for foreign as well as domestic coinage for as long as the demand for coins dictates, and sound economic judgment indicates.

Total Coinage Capacity

The "capacity" of the Mint, as indicated in the foregoing, depends upon the definitions used, whether one is referring to self-contained, "in-house" capacity or whether outside purchases are involved, and also whether one refers to one or two shifts, or to an "around-the-clock" basis.

By July, 1967, the Mint will have a total stamping capacity of about 20 billion coins per year, operating around-the-clock, seven days a week, and purchasing clad and other strip from industry. On the more economical basis of operating two or three shifts, but still with some outside purchases required, the capacity will be between 10 and 15 billion coins annually. This data is summarized as follows:

1967 Stamping Capacity (billions of coins annually)

	One Shift	Two Shifts	Three Shifts	24-hrs. 7-days
Philadelphia (new)	2.0	4.0	6.0	8.0
Denver	1.6	3.2	4.8	6.4
San Francisco	1.4	2.8	4.2	5.6
Totals	5.0	10.0	15.0	20.0

(B) TREASURY-FEDERAL RESERVE PLAN FOR RESERVE SUPPLY OF COINS

Your committee, sir, has recommended that the Mint and the Federal Reserve should maintain inventories of coin adequate to prevent recurrence of any serious shortage. This will be done. The Federal Reserve Board has been working with us closely on this and has given its full support to this program. While such an inventory backlog may create storage problems, we have agreed that these problems should be met and solved in such a way as to prevent storage capacity from being a dominant factor in the determination of the amount of coin to be held by the Mints and the Reserve Banks as a cushion against unforeseen demands. They, and we, are giving consideration also to a reserve supply of coins to meet a national emergency. You will remember that, for this reason as well as for efficient production scheduling, Arthur D. Little, Inc., recommended a year's supply of coins in inventory.

As soon as we find beyond any question of doubt, that the coin shortage is over, we intend to work out an agree-

ment with the Federal Reserve System providing for an inventory backlog. In the meantime, the joint committee of the Treasury and the Federal Reserve will continue to work on this matter, with studies as to storage space and distribution of the proposed coin reserve stock.

(C) HALF DOLLAR PROGRAM

Shortly after the enactment of the Coinage Act of 1965, contracts were awarded to Handy and Harman and Engelhard Industries for their maximum capacity of silver clad 50¢ strip. These are the only companies who are in the business of producing silver alloys in such quantities as to produce 50¢ strip economically.

A limiting factor in production of silver clad strip for the new 50¢ coin are melting and casting facilities and technical know-how. Historically, the silver industry had not required the capacity to produce silver alloy castings in the quantities required by the coinage program. Due to different melting and casting techniques, it has not been feasible to utilize facilities now engaged in producing cupro-nickel clad strip in making silver clad strip.

Present contracts call for the delivery of enough silver clad strip to produce 47,000,000 new half dollars by June 30. Plans are being made to increase the delivery of strip to provide for a substantial increase in the production of half dollars.

In addition, we have under way three experimental contracts for production of silver clad strip. Results of these experiments appear to be favorable at this point. In one of these experiments, the silver is being melted, cast and rolled to a cladding gauge at the Denver Mint. The metal is then bonded by outside industry and returned to the Mint for finish rolling. Satisfactory blanks have been produced by this method. We are evaluating these processes and intend to utilize these production methods to the extent needed to increase production of this denomination.

(D) PROJECTED COINAGE PROGRAM, FISCAL YEARS 1966 and 1967

The Bureau of the Mint obtained a supplemental appropriation for the fiscal year 1966, in order to produce as many of the new coins as possible. Its objective is to manufacture enough of the new coins to replace the 12.4 billion silver coins estimated to be in circulation, within a two and one-half year period, if that should become necessary.

The appropriation requested for the fiscal year 1967, in continuation of this policy, includes provision for producing a total of 15.1 billion coins during that year, of which approximately 10 billion will be the new subsidiary coins authorized by the Coinage Act of 1965 and the balance will be the minor coins (nickels and cents). Maximum production rates will be continued on the new subsidiary coins as long as necessary to assure adequate supplies of coins to circulate the goods of the country.

(E) SALE OF SPECIAL COIN SETS FOR COLLECTORS

We have not made any concrete decisions relating to the production of special coin sets for collectors. If we do find that the coin shortage has been overcome, you may be sure we will produce these special sets as soon as possible.

PART IV. FORECASTING OF FUTURE COIN NEEDS AND IMPROVEMENT IN DISTRIBUTION PROCEDURES

Your committee, Mr. Chairman, has evidenced much interest, and properly so, in having the monetary agencies develop determinative criteria or specifics for estimating future coin needs and for fostering equitable distribution of coin. This will be done.

If I may, sir, I would like to lay the groundwork for the discussion on this matter by a chronological presentation of this problem, and to bring your committee up to date on the developments in this area since your last hearing.

To go back a bit, you know that Arthur D. Little, Inc. of Cambridge, Massachusetts, did a survey under the sponsorship of the Executive Office of the President, Bureau of the Budget, with funds provided by the President's Management Improvement Fund. This study was concluded on January 16, 1963.

The objectives of the survey were to study the operations and facilities of the Bureau of the Mint in relation to current and long-range coinage requirements. In order to fulfill the over-all objective of the survey, Arthur D. Little:

1. Forecast coinage requirements for the next twenty-five years. Their forecast included projections of demand for domestic coinage by denomination for each Federal Reserve District.
2. Developed a forecasting system which was designed to permit the Bureau of the Mint to prepare its own forecasts as required in the future.

As you know, there developed a considerable variance between he Arthur D. Little forecast and coinage programs we found necessary ɔ schedule because of the coin shortages which developed, and because f the change in the alloy of subsidiary coins which involved an expanded rogram to make enough coin with new alloy to replace all existing subidiary coins, if need be.

By House Report No. 194, 89th Congress, 1st Session the ommittee on Government Operation, House of Representatives ecommended that:

"Inasmuch as the shortage is attributable in part to inadequacies in the available means of determining coin needs and the scheduling of coin production, it is recommended that--

A. The Secretary of the Treasury specifically clarify these responsibilities as they pertain to the Mint and to the Federal Reserve System.

B. The Treasury and the Federal Reserve System continue their efforts to devise more exact means of ascertaining coin requirements, to increase the efficiency and economy of coin production, to provide the Congress with more adequate information on which to determine production appropriations, and to avoid the necessity of requesting supplemental appropriations.

C. The Federal Reserve System give consideration to developing more scientific bases for the uniform and equitable distribution of coin."

y House Report No. 195, 89th Congress, 1st Session, this committee :commended that--

"The Treasury Department, the Bureau of the Mint, and the Federal Reserve System, in their efforts to devise more exact means for determining coin needs and fostering the equitable distribution of coin, jointly (a) explore the possibilities of obtaining assistance in those regards from extragovernmental sources and (b) determine whether (and, if so, how), the coin holdings of commercial banks should be inventoried periodically."

' House Report 223, 89th Congress, 1st Session, the Committee on ›propriations, House of Representatives, requested that careful consideration given to the development of reliable coinage estimates of coinage require- ents under considerations which may prevail in the foreseeable future,

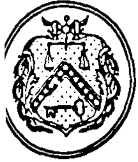
and that no opportunity be overlooked in its endeavor to meet those requirements. It was further requested that the Department maintain close liaison with the Committee concerning the problems facing the Department in this area.

* * * * * * * * * * * * * * *

Mr. Chairman, between your first hearing in 1964 and your second hearing in 1965, I can assure you I was and am still much concerned about getting basic data which would throw light on the end-use being made of the billions of coins we have produced and released for circulation. My concept, then, of the approach to this problem can perhaps be shown best by offering for the record a memorandum which I prepared and distributed to my staff on November 15, 1964. This turned out to be an exercise in mental gymnastics, primarily because of prevailing opinion that the more we delved into this matter, during a period of acute shortage, the more the problem would be aggravated.

We did write to the Federal Reserve Board, early in January, 1965, asking for an estimate of their coinage needs for fiscal year 1966. Later, Assistant Secretary Wallace and I met with the Board and the Reserve Bank presidents to discuss this matter. From this meeting, and prior discussions, there evolved a plan to establish a joint Treasury-Federal Reserve committee to develop a data collection plan.

Mr. Chairman, with your permission, I would like to include in the record my letter of January 14, 1965, to the Federal Reserve Board, Chairman Martin's reply to Under Secretary Deming on March 16, 1965, and the latter's acknowledgement of April 2, 1965.



TREASURY DEPARTMENT
WASHINGTON, D.C. 20220

OFFICE OF
·OR OF THE MINT

November 15, 1964

MEMORANDUM FOR THE STAFF:

As coins are made to be used in the commerce of this country, the Mint should and must find out the end-use which is actually being made of billions of coins, especially in view of the present and past problems in connection with the coin shortage.

I know that all of you are busy, but I ask that you particularly concentrate on this problem, letting only the crash program interfere with our going forward to solve related problems.

In connection with our attempts to ascertain this end-use, which goes to the core of the shortage, and the channels being used to arrive at all end-uses for coins, we should write, among others:

1. The Chairman of the Federal Reserve Board, asking for monthly reports on coin holdings of member banks, together with information about the coin situation reported to their representatives when they make their routine visits to member banks.

2. The Comptroller of the Currency, asking that he break down the Call Reports (of which there are 4 a year), in order to reflect the quantities of coin, by denominations, being held in National bank vaults. At the present time, these call reports contain only a single item for Cash, which includes coin and currency.

3. The Chairman of the Federal Deposit Insurance Corporation, asking that he secure from banks, not members of the Federal Reserve System, who come under the jurisdiction of FDIC, monthly reports on coin holdings.

Keep Freedom in Your Future With U.S. Savings Bonds

4. The National Association of Chain Stores, asking if they would make a survey of their members as to how much coin is in their possession, and where it is kept, as of the date requested.

5. The Association of Retail Merchants, and/or Board of Trade groups, (lists probably obtainable from the Association of Trade Associations), asking them to secure the same information. (This includes laundries, cleaners, all such).

6. The Coin Operated Device Associations, including Vending Machine groups, Telephone Companies, Highway Commissioners, etc., where not members of any Association, asking the same information.

7. Have our New York Office, through FBI, SS, or by personal inquiry, ascertain from companies renting storage space (warehouses, vaults - outside of banks - and such), whether or not coin is stored therein. If so, by and for whom.

8. Write Mr. Saxon, Mr. Barr, and the Federal Reserve Board to ascertain if we could have information as to the amount of coin known to be stored in large quantities (upward of $10,000) in their various institutions. Naturally, names of the owners would be privileged information.

9. Make a spot-check of areas where shortages exist - i.e. Chicago, Colorado Springs, etc., and secure details as to where coin normally is secured, amount of flowback, changes in pattern chronologically, and opinions as to reasons for increasing seriousness of shortage.

10. Ask the Federals for their best estimate of NEED for coins for 1965. Also, for their best estimate of probably flowback to be expected, and when, with probable source.

11. Check carriers, especially large companies such as Brink's, as to known instances of payment of premium for coins, or arrangements existing for them to buy coin to sell at a premium. (Names privileged).

12. Make spot check of businesses, banks, etc., as to instances where coin has been offered for sale at premiums. When willing, specific names could be given as no privilege would exist in this situation. Follow through by checking sources for coins thusly sold for profit.

13. Check "ads" for sale of coins at premium. Have offerors interviewed by properly authorized persons, as to the source of their supply, their operating procedures (customers, rate of profit, whether operating on borrowed funds or not).

14. Investigate possibilities, or seek to have legislation introduced, making it illegal to sell coins for profit unless (1) licensed as a coin dealer, or (2) registered with Mint or other authorized agency - Treasury, Federal Trade, etc.

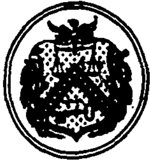
15. Have S. E. C. or Federal Trade investigate practices of individuals or firms engaging in so-called "Coin Investment" activities. Ascertain how they fulfill their promises to "turn $5, 000 into $20, 000 in 4 years".

16. Stiffen penalties, procedures, or whatever is necessary to stop practices of bank employees selling rolls or bags of coin in any quantities for "tips", "premiums" or what have you.

17. Permit Bureau of the Mint to engage specialists, consultants, experts, economists, and whatsoever may be necessary to ascertain the complete and "true facts" as to the cause of this problem and the solution.

18. Attempt through the Professional Numismatic Guild, the Retail Coin Dealers Association, and coin teletype outfits, to have a survey made as to the amount of coin held by coin dealers. Again, individual's names are privileged, but an over-all and fairly accurate estimate probably could be made.

Eva Adams
Director of the Mint



TREASURY DEPARTMENT
WASHINGTON, D.C. 20220

OFFICE OF
DIRECTOR OF THE MINT

January 14, 1965

Hon. William McC. Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Dear Mr. Martin:

It would be helpful to the Bureau of the Mint if each of the Federal Reserve Banks and Branches were to formulate an estimate of their coinage needs for fiscal year 1966. For planning purposes, the assumption may be made that no silver dollars will be produced and that there will not be any change in the alloy of the subsidiary and minor coins now being produced.

In making such an estimate, I of course appreciate that the traditional January coin flow-back, or diminution of such a flow-back this year, will in large degree influence estimates dealing with the new fiscal year. Accordingly, if you are in agreement that estimates on the part of the Federal Reserve Banks and Branches can serve a useful purpose, may we hope to have this information some time early in February, 1965?

Sincerely,

/s/ Eva Adams

Eva Adams
Director of the Mint

Keep Freedom in Your Future With U.S. Savings Bonds

MAR 17 1965

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

March 16, 1965.

The Honorable Frederick L. Deming,
Under Secretary of the Treasury
for Monetary Affairs,
Department of the Treasury,
Washington, D. C. 20220.

Dear Fred:

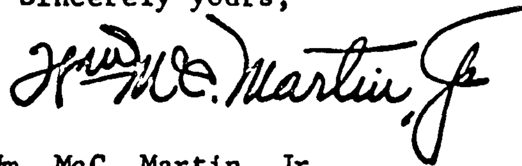
The Board was gratified to note that coin received by the Reserve Banks from circulation during February continued the upward trend begun in the previous month, and that this was the first time since before 1963 that February receipts were above those for January. This experience would seem to indicate that the massive production program of the Treasury is beginning to make substantial progress in abating the coin shortage, and that it would be appropriate at this time to give consideration to means for developing better measures of future coin needs.

In her letter of January 14, 1965, Miss Adams said that it would be helpful to the Bureau of the Mint if each of the Federal Reserve Banks and Branches could formulate an estimate of their coinage needs for the fiscal year 1966, and in the meeting which Mr. Wallace and she had with the Board and the Reserve Bank Presidents on February 2, 1965, the possibility of estimating future requirements and of obtaining inventory reports from member banks was explored further. Although the views of the Presidents indicated a strong feeling that no significant data along these lines could be obtained at this time, the general need for better data on coinage requirements is fully recognized. The problem seems to be in the nature of the steps that might be taken to improve the reporting system and the timing of such steps.

It is understood that, in discussions you and Mr. Wallace have had with Mr. Farrell of the Board's staff, the suggestion has been made that a conference attended by representatives of the Treasury, the Bureau of the Mint, and the Board, and by representatives from the Federal Reserve Banks knowledgeable in the coin problem might be helpful in developing a better data collecting program. The Board concurs in this view and would be pleased to arrange for such a conference at the convenience of the Treasury.

The Board also feels, however, that the benefits of such a conference would be maximized if the Reserve Banks could be furnished in advance with an agenda or other indications of the matters to be discussed. Any thoughts that you and your associates may have in this regard would be appreciated.

Sincerely yours,



Wm. McC. Martin, Jr.

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
WASHINGTON 25, D.C.

April 2, 1965

Dear Bill:

Thank you for your letter of March 16, about the proposed conference between the Treasury, the Board, and representatives of the Federal Reserve banks, to discuss coinage problems. The Treasury is pleased to know that the Board concurs in the belief that such a meeting would be useful.

Preliminary to the conference, may I suggest that a working staff composed of representatives from the Mint and the Board's Division of Bank Operations meet to prepare an agenda? Agreement can then be reached by the Board and the Treasury as to specific topics to be covered and the priority to be assigned each, if they should be so extensive as to cover a number of study projects. In the course of preparing the agenda, I believe, and am sure you will agree, that the comments and recommendations made in the recent reports on the coin shortage, by the Committee on Government Operations, House of Representatives, should be given full attention.

Sincerely,

/s/ Fred

Frederick L. Deming

The Honorable William McC. Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
Washington 25, D. C.

In July, 1965, a joint Treasury-Federal Reserve Ad Hoc Coin Committee was organized, to give attention to the recommendations of your own committee as well as the House Appropriations Committee.

The Ad Hoc Coin Committee consists of the following:

Wilbur T. Billington	Vice President and Senior Economist Federal Reserve Bank of Kansas City
Kenneth M. Failor	Assistant to the Director of the Mint and Chief of Coin Management Bureau of the Mint
A. M. Gustavson	Vice President Federal Reserve Bank of Chicago
R. Duane Saunders	Director, Office of Debt Analysis Treasury Department
Thomas O. Waage	Vice President Federal Reserve Bank of New York
John R. Farrell (Chairman Pro Tem)	Director, Division of Bank Operations Federal Reserve Board

This joint committee met in Washington on July 21 and 22, and again on November 29, 1965. The matters considered by this committee, its conclusions and recommendations were placed before the Conference of Presidents in September, 1965, and before the Board of Governors of the Federal Reserve System. The details concerning the recommendations,

and the action taken on them by the Board of Governors, are given in Chairman Martin's letter of February 1, 1966, and the enclosures thereto. Mr. Chairman, I offer these for the record.

Mr. Chairman, we will not burden the record with the deliberations of the Ad Hoc Coin Committee, which led up to the report which was submitted to the Conference of Presidents and the Board of Governors. However, this information is available for inspection by the members of your committee and your staff, should you find this data useful.

As things now stand, the Treasury will soon reply to Chairman Martin's latest letter, and then we will be ready to move forward to accomplish what your committee has recommended. We will make every effort to make improvements, not only in the field of forecasting coin needs, but also in developing better and more economical means of distribution.

FEB 2 1966

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

February 1, 1966.

The Honorable Frederick L. Deming,
Under Secretary of the Treasury
for Monetary Affairs,
Treasury Department,
Washington, D. C. 20220.

Dear Fred:

This refers to the report dated December 1, 1965, of the joint Treasury - Federal Reserve _Ad Hoc_ Coin Committee. It is understood that copies of this report were previously furnished to you and other Treasury representatives, as well as to the Conference of Presidents and the Board. For convenient reference, a listing of the recommendations in the report is enclosed.

On December 13, 1965, the Conference of Presidents approved the recommendations in this report with the following exceptions. The Conference reaffirmed the positions taken at its September 27, 1965, meeting with respect to distribution procedures, namely, that (1) the Conference does not see any net gain in proposing any change in the distribution procedures at the present time in view of the likelihood of the coin shortage being improved in 1966, and (2) the Reserve Banks should in principle accept coin orders direct from nonmember banks but that this requirement should not be made mandatory at this time because such action would aggravate the problem of equitable distribution of coin among the commercial banks.

The Board concurs in the actions taken by the Conference of Presidents with respect to the recommendations made by the _Ad Hoc_ Coin Committee. In considering this matter the Board noted that, while some of the recommendations call for action mainly on the part of the Reserve Banks or the Board, nearly all of the recommendations would directly or indirectly affect Treasury operations. Accordingly, before taking any further action, the Board would like to have the views of the Treasury with respect to the _Ad Hoc_ Committee report, and would particularly appreciate any comments or suggestions as to further steps in this matter.

Sincerely yours,

Bill

Wm. McC. Martin, Jr.

Enclosure.

RECOMMENDATIONS IN THE DECEMBER 1, 1965, REPORT OF
JOINT TREASURY - FEDERAL RESERVE AD HOC COIN COMMITTEE

Inventory Reports

1. With respect to Federal Reserve Banks and Branches, the existing arrangement be continued under which coin holdings at the end of each week and at the end of each month are reported to the Mint, with the monthly reports also including data showing coin receipts and payments, as well as comments on the degree of rationing by Reserve Banks. In addition, however, if and when desired inventory holdings are obtained from commercial banks pursuant to the immediately following recommendation, arrangements should be made to obtain comparable figures from the Reserve Banks and Branches.

2. With respect to commercial banks, the Federal Reserve System Research Advisory Committee be requested to develop arrangements under which--

   (a) All weekly reporting member banks would submit special reports showing, by denominations, as of the last Wednesday of each month the amount of coin on hand and the desired inventory level at that time of year.

   (b) A representative sample of smaller banks in each Federal Reserve District (preferably member banks) not included in the weekly reporting group would report the same information.

3. With respect to large users of coin (such as department stores, supermarkets, armored carriers providing wrapping service, etc.), the Federal Reserve System Research Advisory Committee be asked to study the feasibility of setting up by Federal Reserve Districts a sampling reporting arrangement that would provide on a continuing monthly basis data that would show, by denominations, coin holdings and desired inventory and that would be representative of the "on hand" or "float" needs of large users of coin.

4. Copies of the reports suggested above be furnished to the Bureau of the Mint and the Board's Division of Bank Operations.

Hoarding

1. The Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board be asked to make arrangements under which, as part of every bank examination, a separate report would be submitted to the appropriate Federal Reserve Bank showing for the bank being examined the number of loans collateraled by silver dollars and other coin, and the amount of coin so pledged by denomination.

2. The Treasury consider hiring an outside research group to develop and carry out a proposal for sampling coin dealers and collectors for the purpose of obtaining a representative indication of their holdings.

Coins in Circulation

The Treasury continue its study of sampling techniques to improve statistics on coin in circulation, and the Federal Reserve Banks and the Board stand ready to lend any assistance the Treasury may desire in this undertaking.

Production Planning

1. The Bureau of the Mint investigate and develop a long-range planning program based on sound statistical techniques.

2. The Federal Reserve Banks develop a procedure under which each Bank would submit to the Board's Division of Bank Operations (a) in April of each year a preliminary estimate showing the coin needs for its District, by denominations, for each of the next two calendar years broken down by quarters, and (b) in August of each year furnish any revisions that may be appropriate in the April figures.

3. The Division of Bank Operations coordinate these figures on a System-wide basis and furnish them to the Mint in May and August of each year for advisory purposes.

4. A permanent Treasury - Federal Reserve liaison committee be appointed to review proposed production before firm estimates are submitted to Congress.

Distribution

1. The Mint, for purposes of making its coin allocations among the Federal Reserve Banks and Branches, (a) take into account the degree of rationing at the different Federal Reserve offices, as now shown on the monthly reports to the Mint on Form 9000; and (b) obtain from each Federal Reserve office a mid-month report showing, by denominations, coin receipts desired from the Mint during the next calendar month.

2. The Board consider the desirability of asking the Presidents' Conference to adopt, in the Cash Circulars of the Reserve Banks, uniform paragraphs covering coin service to nonmember banks, with a view to eliminating any provisions that discriminate against nonmember banks other than those that have to do with absorption of shipping charges and risks.

3. Treasury Circular No. 55 be revised to delineate specifically between responsibilities of the Treasury and the Federal Reserve Banks with respect to the distribution of coin, and to eliminate the prohibition against paying out new coin when circulated coin is available.

Storage

1. Long-range production planning by the Mint include provision for a backlog of coin beyond current needs. Minimum holdings, by the Mint and Federal Reserve Banks together, for this purpose are recommended as follows: cents--three months' supply; nickels--six months' supply; other coins--one year's supply.

2. The "supply" used in such planning goals be based on the Reserve Banks' gross payments less their receipts from circulation, and on inventory data reported by Reserve and commercial banks.

3. The Mint make a survey of storage possibilities available to it (such as the Assay Offices, West Point, and Fort Knox); that such survey include data showing the bag capacity of the space available and transportation and other costs involved in utilizing such space; and that these data be coordinated with similar data previously compiled by the Federal Reserve Banks and Branches.

4. The Treasury and the Federal Reserve System work out an agreement under which, in building up an inventory backlog--

   (a) The Mint will be basically responsible for the storage of new coin and the Reserve Banks will be basically responsible for the storage of circulated coin.

   (b) Supplies be built up first at Reserve Banks, next at the storage space under Mint control, and finally at other points if necessary; and if space outside of the Federal Reserve Banks and of Mint control is necessary, the Mint and the Federal Reserve System work out an agreement as to appropriate sharing of the rental cost.

5. The Mint bear any transportation costs resulting from its request to move part of the inventory backlog from one Federal Reserve office to another.

6. Any reflow of coins to Reserve Banks beyond inventory needs be removed from current inventories and stored in dispersal areas until there is an adequate stock for a national emergency.

Miscellaneous Items

1. A policy be adopted under which rebagging and mixing of a specific denomination of coin will be continued by the Reserve Banks only as long as any Reserve Bank is rationing such coin.

2. The Federal Reserve Banks continue to accept deposits of wrapped coin and pay shipping charges on receipts from nonmember banks until an ample supply of coin is generally available.

3. A policy be adopted under which persons with particular knowledge of the coin situation would be very careful in volunteering any information about it and equally careful about the implication that might be drawn from replies to responsible inquiries.

4. The Treasury consider re-establishing a numismatic service as soon as possible in order to realize the revenue that would come from such a service and to provide collectors with proof sets and possibly other new coin.

PART V: RETURN TO MORE NORMAL AND ECONOMICAL PRODUCTION

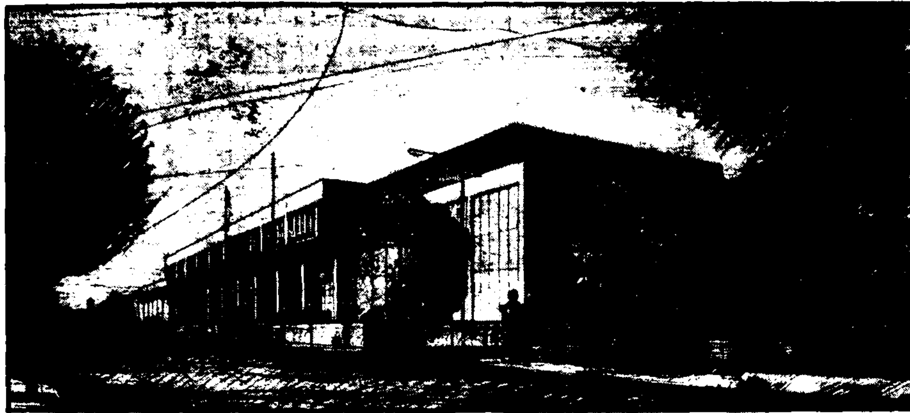
Your Committee, Mr. Chairman, has recommended that the Mint give consideration to, and formulate plans for decreases in production of coin when the present needs and inventory requirements have been met, including termination of any uneconomic steps undertaken during the crash program.

In the months which lie ahead, you may be certain, sir, this is something we will work earnestly to achieve. However, as you know, we are just beginning our transition to the new coinage. It will be some time, even yet, before coin needs are fully met, on a national scale. We are particularly appreciative of the support you lend to an inventory reserve which does many things. It will be a powerful force in giving assurance to the coin-using public that coin will be available when it is needed. It will, in itself, level out the peaks and valleys in the coin demand and equate that demand to more of an actual need basis, rather than a demand which is based on a fear of a future

scarcity. And, most importantly, at least to us, it will give us a chance to level out our own production on a most efficient and economical basis.

Our greatest step toward "normalcy", efficiency and economy of operation will be taken in July, 1967, when the doors of the new Mint at Philadelphia are opened for business. So that you may have some idea of what this important new edifice will look like, there is enclosed with each of the statements given to the members of your Committee, a photograph of the architectural rendering. If it would not be inappropriate, sir, I would also like to offer for the printed record a line drawing, should your Committee desire to have it.

Not only will the new Mint at Philadelphia provide a significant increase in production capacity--over three times that of the present mint--but it will permit the production of coin on a highly efficient and economical basis. This mint will be completely self-sufficient. Outside purchases of strip, including the clad, will be



UNITED STATES MINT

eliminated. Overtime, premiums, and other extra labor costs will be minimized. Transportation costs for incoming material, blanks, scrap, and finished coin will be greatly reduced. The economies of automation will be realized.

Technological developments which came about as a result of the Coinage Act of 1965, made it necessary that a number of changes be made in our original plans for the structure on the new Mint site which was selected some time ago. We have managed to fit in the cladding and other processes necessary to support the new coinage operations. The story on this, Mr. Chairman, is given in a letter, in response to an inquiry we received from you not long ago. I would like, sir, to offer this correspondence for the record.

If I am not already running over time, I would like to touch briefly on some of the areas in which we hope to economize:

OVERTIME: Currently overtime and shift premium pay are running at a rate of about $10,000 a month. If production remains at about the same level which prevails at this time, the new Mint at Philadelphia should enable us

..FLA., CHAIRMAN
..ONALD, MASS.
..LAGHER, N.J.

EIGHTY-NINTH CONGRESS

Congress of the United States

House of Representatives

LEGAL AND MONETARY AFFAIRS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B349-A
WASHINGTON, D.C. 20515

DONALD RUMSFELD, ILL.
WILLIAM L. DICKINSON, ALA.

CAPITOL 5-4407

October 19, 1965

Miss Eva Adams
Director of the Mint
Treasury Department
Washington, D. C.

Dear Miss Adams:

The Philadelphia Inquirer has recently carried articles concerning the new Philadelphia Mint, the most recent of which to come to my attention is the enclosed from the October 15, 1965, issue.

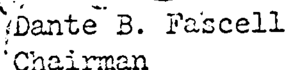
The articles have criticized the site of the new mint as a poor one because of its location in a crowded downtown area, and because it is of such restricted size as to prohibit lateral expansion. The articles have also commented on the increased construction estimates and the need for more expensive machinery than had earlier been indicated.

I would appreciate your advising the Subcommittee of the manner in which the site was selected, and the considerations which went into its selection. Also please advise whether there was any other Federal or privately owned land in the Philadelphia area which could have been utilized, with perhaps better transportation facilities and with more room for expansion.

In view of the high costs of equiping and expanding the new mint, please advise whether consideration has been given to the advisability or possibility of eliminating the manufacturing steps which precede blanking, by purchasing bronze, nickel and the new clad stripping from private industry

Please give any additional information which you believe may be helpful to the Subcommittee in its continuing interest in the efficiency and economy of coinage operations.

Sincerely yours,



Dante B. Fascell
Chairman

Enclosure

TREASURY DEPARTMENT
WASHINGTON, D.C. 20220

OFFICE OF
DIRECTOR OF THE MINT

October 26, 1965

Dear Mr. Fascell:

Thank you for your letter of October 19, asking for information on our new Mint planning, and indicating the Subcommittee's continuing interest in the Bureau of the Mint and its coinage operations. We are grateful for that interest. We will try to answer your questions in this letter and its attachments, and we would welcome the opportunity to discuss the new Mint in more detail with you, your staff, and the Subcommittee members should you so desire.

First, let me say that we in the Treasury completely understand your concern about the adequacy of the Independence Mall site and the advisability of building and equipping the new Mint as currently conceived. Further, I assure you that both we and G. S. A. have done a great deal of soul-searching during the past months and have given the problem a thorough analysis. We are still firmly convinced that the selection of the Independence Mall site was the proper one and that any change in plans at this late date would be definitely against the public interest.

Construction was begun on October 1. The excavation work is almost completed and the forms for the concrete foundations and footings are well underway.

The processes and operations planned for the new Mint are basically the same as carried out in the existing Mints, but on higher-capacity and more efficient equipment. That is, the basic operations will be melting and alloying of metals, casting the alloys into ingots, rolling the ingots into strip, punching blanks from the strip and coining the blanks. Even the cladding process will be similar, but will require additional preparation of the ingots and/or strip and a bonding operation (e.g., rolling and heating). We have no intention of carrying out primary metal operations, such as steel mills perform, which would be impractical, uneconomical, and constitute a "public nuisance" in an urban area, and its location will not adversely affect our economy of operations.

The site is large enough for the Mint's requirements. At 5.3 acres, on about three city blocks, it is more than three times the size of the existing Mint's site. We plan to have all coinage operations, including cladding processing, on the ground floor, as well

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truck-loading, and storage for both raw material and finished coins. Only office, die-making, proof coin, long-term storage, and other supporting activities will be located on upper floors. The production areas will have high ceilings (55') and only a portion of the building will be multi-story. As with many modern plants, production will be on a single floor with a multi-story office area on the front of the building.

Trucking operations will be "off-street". We expect about 30 trucks per day, an average of 2-3 per hour, and a loading dock, completely inside the building, which will permit us to load or unload seven or eight large highway tractor-trailers simultaneously. In addition, a driveway off the street will contain at least six trucks waiting to enter. Our present Mint can load or unload only one at a time, and waiting vehicles have to park on the street. We are sure that these provisions are more than adequate for the efficiency of our operations, and Philadelphia officials who are concerned with traffic problems, have approved our plans.

The trucking operations will be off Fourth Street, a side-street and not a main artery, which will be most convenient to the proposed Delaware River Expressway, only four blocks away. As with department stores, post offices, newspaper plants, and other truck-intensive operations which are located in the city, we foresee no special problems. (As a sidelight, the contractor has 50-75 trucks per hour presently hauling dirt, with no apparent problems).

Regarding parking, we feel it is unnecessary and too costly to provide spaces for all our employees. Space for 1,000 cars would require about 10 acres of parking area. Public transportation is excellent, and the location is readily accessible to all our employees, including the many who live in Camden, New Jersey, across the river. A large municipal parking garage is currently under construction across the street under the Mall. Further, we will have much fewer employees than many of the office buildings in the area. Our present Mint has no parking at all.

Planned production, which will include process equipment for the new clad-alloy, is 2 billion coins per shift per year, or 8 billion on a 24-hour, 7-day basis. This capacity is more than double the existing Philadelphia Mint's; in fact, it exceeds the total capacity, under normal operating conditions, of the three existing Mints combined. Thus, provision for expansion has been "built in" and we firmly believe that the new Mint will have sufficient capacity to meet the coinage needs of the Eastern United States for the next 15 to 25 years.

We believe that it will be undesirable to expand the Mint in Philadelphia further. For economic reasons, especially freight costs, if and when coinage needs exceed our new total capacity, additional

capacity should be provided elsewhere than the East Coast. Shipping tons of raw material and finished coins, at $1 to $2 per hundred pounds, first to Philadelphia and then back West for coin distribution would be excessively expensive. As the population-center moves further West, it will become more efficient and economical to ship coins from a closer point than Philadelphia.

The question of the advisability and possibility of eliminating some of the manufacturing steps in the new Mint has been given a great deal of consideration. This question, which is not a new one, touches on many issues. For many reasons --- constitutional, statutory, economic, security, quality, scheduling, and over-all public service --- it is our conviction that the manufacture of United States coins is a function of the Federal Government. Only in times of extreme emergency should it be delegated to private industry. We are currently purchasing strip, as you know, because the Mint has not been permitted to expand its facilities in the past and, consequently, does not have the production equipment or the space to produce sufficient quantities of bronze, cupro-nickel, or the new clad materials to meet the demand for coins. Because of this situation, particularly with several new companies now producing the clad material under profitable government contracts, there is natural pressure on legislative and other critics to force a continuation of present conditions, i.e., to postpone or cancel entirely the building of the new Mint.

For the next two years, until the new Mint becomes operative, we expect to pay close to $60,000,000 each year for the fabrication (i.e., exclusive of material costs) of strip purchased from several industrial companies. This figure is more than double the current operating cost for the Mint's entire coinage operations. Furthermore, we estimate that the Mint can produce strip at about 60% less cost than that we must pay private companies, or a potential annual savings, at present production levels, of $40,000,000. This fact alone justifies the non-recurring cost of $37,700,000 for the new Mint, and certainly mitigates against continuing outside purchases.

The Secret Service, as well as the Bureau of the Mint, has always been concerned about contracting coinage operations to the private sector. Past and current experience have indicated that special security measures must be taken to avoid "slugging" problems when private companies are producing material of an identical thickness, weight, and alloy as U. S. coins.

The control of the quality of outside purchases is a continuing problem. Our experience of the past two months with the new clad material has firmed our belief that the Mint cannot with confidence rely on industry to produce materials of the quality level required for coins. Nobody in industry, so far as we know, produces the same

quantity and methodically holds the close tolerances which are required normal practice in the Mint. This requirement for close tolerances is not merely a matter of pride nor the fact that U. S. coins are involved; coins that are of improper thickness and/or weight will not be accepted in coin-operated machines.

Further, it is undesirable for the Mint to lose control over its source of materials, not only in day-to-day operations but especially in times of national emergency. Experience has shown that in wartime and other emergencies the materials for coinage become diverted to more essential and/or profitable usage. We would not be fulfilling our responsibilities if we did not consider this possibility. The Mints must be as self-sufficient as possible.

Regarding the selection of the Independence Mall site for the new Mint, I am enclosing two letters to the General Accounting Office (June 28 and July 19, 1965) and a memo from Assistant Secretary Wallace, (June 28, 1965) which describe in detail the steps leading to and the reasons for the selection of this specific site. These are replies to General Accounting Office's letters of June 10 and July 8, also enclosed. The gist of the replies is as follows: There was a pressing need for a new Mint; it is even greater today. Experience has shown that putting its location "up-for-grabs" in the political and civic arena would delay the project, perhaps for years. Thus, a site was selected which was not only "politically feasible" but which also satisfactorily met the Mint's operating and other criteria.

Also enclosed is a copy of a letter-to-the-editor by Mr. William L. Rafsky, which accurately reflects the community's reaction to the Mall site. Mr. Rafsky, incidentally, formerly was Philadelphia's Development Coordinator and is recognized as "Mr. Development" in that city.

In summary, recent developments such as the continuing high demand for coins and the new alloy have presented new problems. Nevertheless, Mint and Treasury officials are firmly convinced that the additional costs for the new Mint are fully justifiable in light of what it will do; that the pressing need of satisfying the coin demand and reducing costs dictate no change in current plans; that the present site is fully adequate; and that it is against the public interest to plan to continue purchasing strip for coinage. Most important, we do not foresee any additional changes which would increase the current estimate of $37,700,000 for constructing and equipping the new Mint. We in the

Treasury and the involved officials in G.S.A. are fully aware of the necessity for keeping to this estimate, and it is our intention to do so.

For your further information, the following is the schedule which we have established for the balance of the project:

Nov. '65	Award contracts for long-leadtime process equipment (e.g., rolling mills).
Dec. '65	Award contract for Phase 2 of construction (structural concrete frame).
Mar. '66	Complete Phase 1 of construction (foundations, etc., begun on Oct. 1).
Apr. '66	Award contract for Phase 3 of construction (balance of facility).
May '66	Complete Phase 2 of construction.
Sept. '66	Begin installation of process equipment.
Spring '67	Prove-out process equipment.
July '67	Complete construction and begin operations.

Again, let me state that my staff and I will be most willing to discuss this project in person.

Sincerely,

Eva Adams
Director of the Mint

The Honorable
Dante B. Fascell
Chairman
Legal and Monetary Affairs Subcommittee
of the Committee on Government Operations
Rayburn House Office Building, Room B349-A
Washington, D. C.

Enclosures.

cc: Miss Adams ✓

JEK:lm

to reduce this figure by about 80%, or an annual savings of about $100,000.

PURCHASED STRIP (BRONZE AND CUPRO-NICKEL): The excess cost of purchasing bronze and nickel strip as compared with Mint manufacture at Denver and Philadelphia was previously estimated at approximately $7 million on an annual basis. All future production of nickel and cents at the Philadelphia Mint will be from the ingots cast and rolled within the Mint. At Denver, we have not started this program because the contracts for this material run until next month. Even then, a large part of our capacity there may be used to melt and roll silver for the new fifty-cent piece.

BLANK SHIPPING: Since San Francisco was reactivated on September 28, 1964, that plant has been supplying Denver with a large proportion of nickel and cent blanks. Pre-fabricated strip has been shipped to San Francisco where it is blanked and annealed, ready for stamping. At the present time we are continuing to feed one-cent blanks from San Francisco to Denver and this will

be discontinued when Denver melts and rolls their own bronze. In the meantime, San Francisco is gearing up to produce clad dime and quarter blanks. Part of these will be stamped at San Francisco and the remainder will be used at Denver.

REDUCED MINT MANUFACTURING COSTS: The actual savings which will be realized through automation and other economies when the new Philadelphia Mint is in operation cannot be accurately estimated until additional engineering is accomplished and we have gained operating experience. However, we believe a conservative estimate to be $0.15 per 1,000 coins. Operating on a two shift basis (4 billion coins per year) this savings would be about $600,000 per year; operating on three shifts (6 billion coins per year) it would be about $900,000. Similar cost reductions could be achieved at the Denver Mint, assuming we are permitted to have a modernization program there.

PURCHASED CLAD STRIP: Since the Mint has had no experience in the manufacture of clad strip, it is impossible to tell just how costly the use of private industry has been in relation to the production of the new subsidiary coins.

A comparison of Mint and industry costs in the manufacture of bronze and nickel strip indicates that Mint costs are usually 65 to 70 percent less than industry cost.

* * * * * * * * * * * * * * *

ART VI. EXPERIENCE WITH CLAD COIN

Public Law 89-81, the "Coinage Act of 1965", authorized the cretary of the Treasury to issue clad coins in lieu of the existing sub-diary silver coins whose alloy was 90% silver and 10% copper. The first these new coins, the quarter-dollar, was struck in September and issued the Federal Reserve Banks for release on November 1, 1965. Thus, the int has now had about four months' experience with the new coins, and we esent herewith our observations, preceded by an explanation of the reasons r selecting this particular substitute for silver.

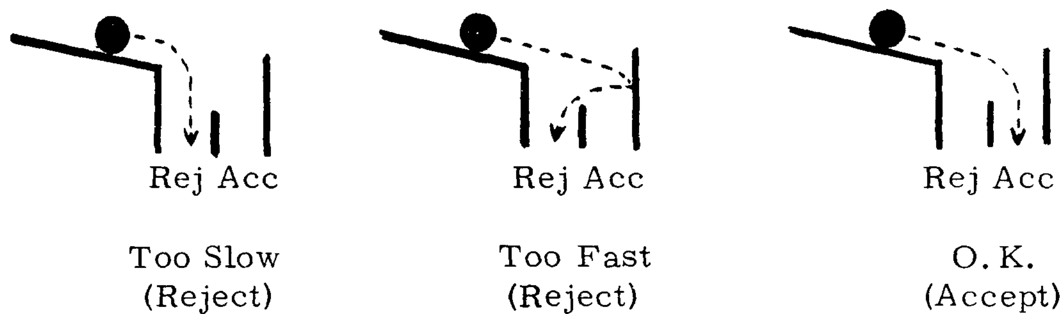
ASON FOR SELECTION

The sole reason for the clad coin - as opposed to a homogeneous one - its ability to be accepted in the same vending machines as silver coins.

The simplest analogy of the principle of coin acceptors/rejectors is asketball travelling towards the basket. If thrown too hard -- i. e., is velling too fast -- it will hit the backboard and bounce back to the floor. ot thrown hard enough, it will fall short of the basket. If thrown just ht, it will "swish through the hoop."

A coin placed on an inclined plane or chute picks up speed as it ls down. When it reaches the end, depending on its speed, it will do one hree things, like the basketball. If travelling too fast, it will fly past

the "accept" slot, hit a plate and bounce back into another slot (reject). If too slow, it will fall short of the proper shot (reject). If the speed is just right, it will "swish" into the proper slot (accept).



COIN ACCEPTOR/REJECTOR
PRINCIPLE

The speed with which a coin travels down a slope is affected by its weight or density. Heavier coins pick up speed faster than lighter ones. However, in vending machines another factor is added. A small magnet is placed along the chute, and it creates a "magnetic field" through which the coin must pass. Coins of different materials are affected differently, depending on their "susceptibility" to the magnetic field. This is the so-called "eddy current effect." Those "highly susceptible" will be impeded or slowed (so they fall short of the basket.) "Less susceptible" coins will have their speed impeded less.

"Susceptibility", or the degree to which a given material is affected by the interaction between the magnetic field and the coin, depends on electrical characteristics of the coinage material, as measured by its resistivity. Since resistivity varies between different metals and alloys, it follows that different alloys will be impeded to varying degrees by the magnet. Low resistance (i. e., good conducting) metals like silver and copper will be impeded much more than materials with high resistance.

Thus, the speed at which a coin is travelling when it reaches the end of the chute depends on its weight, or <u>density</u>, and also on how much it was affected by the magnet, or its <u>resistivity</u>. The measure of these two characteristics is called the "resistivity-density product."

The 90/10 silver-copper alloy has a particular resistivity-density product (21. 9), and vending machines which utilize the "eddy current" principle are set to accept coins with a comparable ratio and reject those which deviate from the standard. There is no single metal or homogeneous alloy, suitably white, which approximates the density-resistivity ratio of 90/10 silver-copper. Because of this fact, a sandwich metal had to be selected for dimes and quarters. A copper core (very low resistivity) and a cupronickel cladding (higher resistivity), the combination of which matches the resistivity of the old silver-copper alloy. A comparable result is achieved for the half-dollars by utilizing a core of about 80% copper and 20% silver and a cladding of 80% silver and 20% copper.

Although we are continuing to investigate and to seek advice and
;uggestions from outside sources, there is still no evidence that a less
complicated" and homogeneous alloy will serve to work side-by-side with
he existing silver coins in vending machines as they are presently constituted.
n short, circumstances are the same today as they were a year ago, and
he Mint sees no better substitute than that selected.

:HARACTERISTICS OF THE CLAD COINS

The clad dimes and quarters resemble the nickels, but have a
istinctive edge evidencing the pure copper core. The clad or outer layer
; exactly the same cupronickel alloy as used in the nickel, 75% copper
nd 25% nickel. As such, the characteristics of dimes and quarters, in terms
f wearing qualities and appearance, will be the same as the nicke. While
ıey will not be so "white" or bright as the silver coins, they will wear
ɔnsiderably better. Also, the new coins are very slightly lighter than
ıe old.

The half dollar coin, when issued, is indistinguishable to the naked
'e from 90/10 silver coins. In this case, the outside or cladding layers
:presenting 30% of the total thickness, consist of 80/20 silver-copper alloy,
ıd the core consists of 20/80 silver-copper alloy. Properties relating to
'nding machine acceptability are virtually identical with those of the 90/10
lver coins.

MECHANICS INVOLVED IN THE PRODUCTION OF THE CLAD STRIP

In accordance with Public Law 89-81 we have negotiated contracts with several companies to supply the clad strip. Some of these companies produce the strip on an in-house basis whereas others require the services of several subcontractors.

The Mint obtains all of its nickel and copper for the clad strip from the GSA stockpile. Under our contractual relationship with our prime suppliers we deliver to them or their subcontractors electrolytic copper and nickel cathodes. All of the copper we are obtaining from the stockpile must be refined into electrolytic cathodes before being shipped for the account of our prime contractors. At the present time contracts have been awarded for the refining of 66,000 tons of stockpile copper. The copper was made available for production of coins by Public Law 89-251, which earmarked 110,000 tons for Mint use.

The silver required is supplied from the Treasury stocks.

In order to manufacture the clad strip the contractors prepare the cladding and core separately before bonding. The bonding of the materials is done in strip or cake form depending upon each contractor's process.

For the outer layer of the clad strip we ship electrolytic nickel from the stockpile and electrolytic copper from various refineries to either the prime contractor or his subcontractor for casting into cupro-nickel slabs. These slabs are then prepared in a form suitable for the contractors bonding process.

To produce the copper core, we ship, at the contractors direction, electrolytic copper to either his plant or a subcontractor. In order to meet the specifications, our contractors are using various special types of copper for the core of the strip. Some of the types of copper used are, a) Deoxidized Low Phosphorus; b) Oxygen Free High Conductivity; and c) Boron Copper. The core metal is then prepared in a form suitable for the contractor to use in his bonding process.

After bonding and rolling to finished gauges and widths, the strip is shipped to the mints for processing into finished coin.

ɔRODUCTION EXPERIENCE

To date, we have had four months' experience and the Mint has ıroduced a total of at least 750 million new clad dimes, quarters, and halves. Vhile we have experienced considerable operating and other production ıroblems, they probably are no more severe than we anticipated. Among he difficulties we have experienced were production delays, slow delivery f material by suppliers, strip that was not acceptable because of unacceptable uality or undependable gauge, poor die-life, and varied inspection problems.

Suppliers of clad material have unfortunately fallen short of their elivery commitments, with the result that the Mint has not produced as ıany of the new clad coins as originally scheduled. However, the situation as improved significantly in the past few weeks, and most suppliers now ppear to be up to their scheduled delivery dates.

As anticipated, the Mint has experienced some serious quality roblems with the clad material as delivered by outside suppliers. The ıajor problem, which is still rather serious, is the apparent inability of ɔme suppliers to deliver strip within the thickness tolerances specified by ıe Mint. The close strip thickness, or gauge control (plus or minus .001") hich is normal practice to the Mint - and is required in coinage - is con- .derably tighter than usual commercial brass mill practice. Suppliers ȝsure us that this problem can be corrected, but it is still with us.

'ortunately, other than the thickness problem, we have had fairly good xperience with the new material as supplied. Other problems, such as elamination of the metals or other quality defects, have been minimal.

We have experienced relatively little trouble in processing the clad ıaterial in the Mints. The major difficulty is in the rapid wearing of the oinage dies. Because the cupronickel cladding is a much harder alloy ıan silver-copper, the dies wear much faster, and die-life is therefore ıuch shorter. This situation, while not unexpected, has required many ıore dies for a given quantity of coins and has forced significant expansion f the Mint's die-making operations.

Because of foreseen and possible unforeseen problems, we have reatly increased the scope of inspection operations. We have acquired dditional reviewing tables and added many inspection operators to review oth blanks and finished coins. As a result, we are confident that we have one everything possible to assure that the new coins meet the high quality tandards established for United States coinage.

XPERIENCE WITH PUBLIC ACCEPTANCE

To date, only the quarters have been released, but some 690 million these have been issued to the Federal Reserve Banks. All the evidence ıdicates that the transition, so far as the public is concerned, has so far one much more smoothly than we had dared hope. The new clad quarters

seem to be circulating side-by-side with the old ones, and we have little evidence of either being withdrawn from circulation. While the Mint is concerned about any and all comments and complaints, we have received much fewer negative reactions than might have been anticipated.

Initially, a few of the banks experienced some trouble in wrapping the new coins in paper rolls. However, with some minor adjustments to their wrapping machines and slight changes to the paper used, plus the Mint's reducing the sharpness of the coin edges, this problem seems to have abated.

We have had few complaints from industry associations; on the contrary, the vending machine trade associations have praised the Mint for the smoothness with which the transition has occurred.

The few communications which the Mint has received have been limited to a smattering of individuals and small business firms who complain that the coins do not look as good as silver, and/or that they do not work in particular vending machines. We have not yet recovered from circulation a single coin which would not operate a vending machine, and it is the opinion of the Mint technical personnel that in virtually every case the fault lies with the coin acceptor/rejector and not the coins.

In short, it appears that the new clad quarters are operating the vending machines as well as the old coins, and that public acceptance is excellent.

PRODUCTION AND RELEASE OF CLAD COINS

The new half dollars were first struck in Denver on December 30, 1965. The new quarter dollars were first struck in Philadelphia on August 26, 1965, and started in Denver on November 15, 1965. New dimes were struck first in Philadelphia on December 6, 1965, and production of new dimes will start in Denver on February 14, 1966. Clad strip for the new dimes and new quarters have been ordered for San Francisco and production of these coins will be started at that plant within the next couple of weeks.

Before release of the new quarters each Federal Reserve Bank and Branch Bank was supplied with a fairly substantial quantity of these coins. 180,000,000 new quarters were issued from the Mint before they were released to the public on November 1, 1965. We expect to follow the same general pattern with respect to the new dimes and halves. Silver dimes will be discontinued on February 14, 1966, and the new dimes will be issued as soon thereafter as an ample supply has been made.

All the facts, figures, statistics, information and material about the Mint, which we have presented here today, merely form the framework around a truly great, synchronized institution of this government. The heart and soul of our operation--bringing miracles accomplished, records set, success in the face of obstacles--all of this centers in the stout hearts, willing hands, and magnificent loyalty of the hundreds of fine Americans who work in the Bureau of the Mint.

Through every segment of our operation, men and women alike have worked hard and long, singly and collectively, thoughtfully and ingeniously, and most of all, with true dedication and unselfish devotion to our common goals. These people are not just names in a staffing pattern--"man-years" in an organizational chart. The Bureau of the Mint has a real team which works together with head and hands and heart.

To the workers in the Mint service, each single little coin is just as important as each million which goes out in bags. Mint people care about the quality of the coins, about their being shipped out on time, their abundance in

the banks, and their final mission in contributing to the smooth-working of the commerce of this country.

I personally am deeply grateful to each and every employee of the Mint, as each has performed his given job far beyond the call of duty. If you have any pats-on-the-back to give to any group, give them to these civil servants who cared enough to see that their Mint performed not only efficiently and effectively, but in manner far above the highest tradition of public service.

Thank you.

STATEMENT OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
HOUSE GOVERNMENT OPERATIONS SUBCOMMITTEE ON LEGAL AND MONETARY AFFAIRS
10:00 A.M. FEBRUARY 8, 1966

The Current Situation

r. Chairman, and Members of the Subcommittee: I appear before you today onsiderably more comfort than was true of my appearance before you a year The supply of our most vital coins -- the quarter, dime, nickel and penny -- better shape now than in any comparable period during the last 10 years. have enough of these coins to take care of current demands and coin pro- n scheduled for the fiscal year beginning next July 1 is 15 billion pieces -- our 1965 production; 3-1/2 times our 1964 output and ten times the number ed in 1959. The new clad quarters have worked their way into circulation ly and we expect no unusual difficulties when we introduce the new dimes and llars in the next month or so.

lthough the coin situation is such that at this time there is no shortage of ins most vital to the transaction of business, it is, of course, vital that we e our current high levels of production. We need to build up our inventories enough to forestall any future shortages.

have learned that a coin shortage, even if only temporary or local, feeds self. This means that we cannot feel secure if our supply of coins is merely ent unto the day. A sudden upsurge of demand causes businessmen and banks to to protect themselves by hoarding coins. A coin shortage thus becomes the f a further coin shortage. Then the speculators move in, taking yet further s because scarce coins can be sold at a premium. A worsening and widening arcity cycle thus gets going that can only be overcome if the Mint is able to t out with new supplies. With over 12 million coin operated devices and a

nal economy which is growing at a substantial rate, we must have tremendous ies of coins on hand at all times.

Quick and massive production of the new coinage, following the prompt action ngress approving it last summer saved us from a crisis last fall. By ber 1, 1965, despite rising production our inventory of silver quarters hrunk to only 15 million pieces for the entire Nation -- this at a time when remendous demands of the Christmas Season were just beginning. By that time, er, our all-out production had enabled us to build up a supply of nearly 200 on of the new clad quarters which we quickly pumped into the economy, and we ved the Christmas Season without a crisis.

After this last Christmas Season coins began to flow back through the banking m and I am happy to report that at the end of January, there were in the Federal ve inventories 137 million quarters; 239 million dimes; 824 million nickels; 89 million pennies. We have less than 2 million half dollars, so these continue ort supply. But, at least, we have no current shortage of those coins most to commerce.

I would like to take this opportunity to pay public tribute to Mint Director lams and the employees of the Bureau of the Mint. For over 18 months they have the Mints operating continuously on a 24-hour-a-day, 7-day-a-week basis, fore- holidays and, in many instances, even vacations.

We are especially grateful for the support and assistance we have had from the ss. This Subcommittee's inquiry which began a year and a half ago has been elpful by its studies and its recommendations. The Appropriations Committees ed us with the necessary funds and the Banking and Currency Committees moved y in securing the enactment of the Coinage Act of 1965 which was so vital to forts.

The Federal Reserve System, American Bankers Association and the entire ›anking industry have given us fine cooperation as has the National Automatic ‹erchandising Association and the vending machine industry. Also the manufacturers ›f the clad materials for the new coins along with their many sub-contractors who ıave made available their melting and rolling facilities.

I should also like to express our appreciation to the coin collectors of this lation. They have, I think, been unfairly blamed for the coin shortage. The fact s that the true coin collector is not interested in hoarding large quantities of :oins -- only those which have numismatic value or those which are needed to com- ›lete coin collections.

The new Coinage Act itself, of course, could not possibly have met the full lesires of both the silver users and the silver producers. Nevertheless, following he full expression of their views on the new coinage legislation and after all the 'inal decisions had been made, both groups have given us full cooperation. Further, think nearly everyone underestimated the sophistication of the American people bout their money: They want a plentiful and well designed and technically adequate ıoney, and they are entirely capable of understanding that if clinging to silver n the coinage means coin shortages, then the use of silver should be reduced to he point where it has no such effect.

Our original plan had been to put both the Philadelphia and Denver Mints on ound-the-clock operations, increasing the production of coins sufficiently to take are of the coinage demands until our new Mint in Philadelphia could be completed. arly in 1964 however, it became apparent that even more extreme measures would e necessary, and we were happy to be able to obtain the approbation of this Sub- ommittee for the crash program announced in June of 1964. Our plan was to double

ıroduction of coins by (1) having private industry produce all strip for .es and nickels, (2) procurement of surplus Defense Department presses and : equipment for use in our Mints, and (3) reopening our San Francisco facility :he production of coin blanks.

Our crash program enabled us to get by the period of high coin demand in ıber and December of 1964. Although the coin situation remained tight that we were able to avert a crisis.

The Recent Silver Shortage

Had the coin shortage been our only problem, we could have mastered it in 1965. Unfortunately, however, there was still another -- and a more intract- -- problem affecting coin supplies: the silver shortage.

As far back as 1963, we realized that action with respect to the silver content ır subsidiary coins would ultimately be necessary. Estimates were made during year that our silver supplies would last approximately 7 years. That, however, efore our tremendous but essential build-up in the production of coins. During it was apparent that at anticipated rates of coin production our supplies of r would not last anything like 7 years unless prompt action were taken.

The silver situation directly affected our coin supplies. When silver ed the monetary price of $1.29 an ounce our silver dollars contained one r's worth of silver. In the expectation that the price of silver would rise se of shortages, speculators bought up all of our silver dollars and they ɔeared from circulation. This was not a crisis as far as commercial transac- were concerned since a dollar bill can be used in the place of silver dollars. ːr, if silver had reached the price of $1.38 an ounce, dimes, quarters and lollars would then have contained silver worth as much as the coin itself. :icipation of this, speculators began to buy up these coins by the roll and

he bag.

Some of these purchases were made because of the expectation that these s would be melted down for their silver content and those remaining would efore, become rare and valuable. Whatever the reason, it seemed that no er how many dimes, quarters and half dollars were produced, large numbers inued to disappear from circulation. It was impossible to build up inventories. while, of course, our higher production schedules meant that we would soon out of silver unless something was done.

Developing a New Coinage Material

I think I need not go into great detail about our problems in developing a titute alloy for our subsidiary coins, although I would be happy to do so if Subcommittee desires. I will simply touch on two aspects of that problem which ertinent to the considerations of this Subcommittee.

First, we had the problem of coin operated devices -- 12 million of them. ing the alloy of a coin which had been the same since 1792 would have caused ems enough. If we added to these problems the complication of new coins that not work in vending machines, we would have had chaos indeed. The vending ne companies could have eliminated their selector mechanisms designed to reject ulent coins. However, that would have opened up the entire industry to the bility of slugs and low-value foreign coins, jeopardizing the usefulness and ience of these mechanisms, raising the cost of their operation, and thereby, sing the cost of the services and goods sold through them. That this was a situation can quickly be seen by the fact that in 1964, $3-1/2 billion worth sumer items were sold through these devices. In growing numbers, factories spitals and other similar organizations were coming to depend on automatic g for goods and services. A million and a half people relied upon coin

olled vending machines for at least one meal a day. Some 30 billion coins into these machines in 1964.

The problem was that the coin selectors in almost half these machines were o accept only coins of 90 percent silver content, except for nickels. There o other white metal that would be accepted by their magnetic sensing devices. ientific experimentation, however, it was found that a laminated material sting of outer layers of 25 percent nickel and 75 percent copper, bonded core of pure copper, possessed the same electrical properties as 90 percent r coins. That is why we recommended this particular material for the new and quarters. Similarly, a new half dollar of only 40 percent over-all silver nt was also found to be acceptable in coin operated devices, if it were made 80 percent silver outer layer bonded to an approximately 21 percent silver

The Coinage Act of 1965

On June 3, 1965, the President sent to the Congress his recommendations con- ng the new coinage. On July 23, 1965, he signed into law the Coinage Act of which the Congress had carefully considered and upon which it had worked its

At the same time the President sent his Message to the Congress, the Treasury Study of Silver and Coinage and the Battelle Memorial Institute's study of ge alloys were made available. These were very thorough studies of the entire ge problem which resulted basically from an excess demand for silver over the able supplies. The Treasury study considered in detail the probable future tion with respect to silver supply and demand and also considered in detail us alternatives to the existing silver coinage. This study attempted to der all of the various interests involved in a changeover of our coinage.

In his Message to the Congress the President reviewed the long tradition ɪur silver coinage, pointed out that we should not hesitate to change our age to meet new and growing needs, and proposed changes designed in the ident's words to "ensure a stable and dignified coinage, fully adequate in tity and in its specially designed technical characteristics to the needs of Twentieth Century Life." The Presidential Message discussed in some detail necessity of reducing the silver content of our coinage, recommended the new coins which we are now producing, called the attention of the Congress to the for early action, and pointed out the necessity of adequate measures to protect existing coinage.

In the finest traditions of our Democratic processes the Congress responded mediately considering and promptly enacting the necessary legislation.

As a result of this legislation silver has been completely eliminated from lime and the quarter and has been reduced from 90 percent to 40 percent in the dollar. The result, once the initial needs for the new coins have been met, be to reduce our coinage uses of silver to about 15 million ounces per year. e same time we have a dignified coinage similar in appearance and identical in asing power and in necessary technical characteristics to our silver coins.

Because of farseeing provisions in the Coinage Act of 1965, the Mint has been ed to achieve an unprecendented rate of production of the new coins. For le, it was authorized to use existing facilities in San Francisco, authorized litures for the construction of new facilities and the acquisition of necessary ic strip were increased, special procurement authority was granted for the ition of necessary equipment and supplies, etc. These provisions, together he loyal and dedicated service of Mint employees have enabled us to meet the e needs of the nation while at the same time building up large inventories

ıe new clad coins which were necessary before they could be placed in
ılation.

Production of the New Coins

Although Congress moved very quickly and enacted our recommendations into
last summer, we faced still another hurdle. Could these coins be produced
‹ly enough to meet the tremendous coin demand expected in November and
nber? The principle of bonding different metals together was not new, but
ıction of the strip in the quantities and tolerances required was a formidable

.

Since pennies and nickels contain no silver they were not as subject to hoarding
ıre the subsidiary coins, so coins of these denominations were not in short
ly. We decided, therefore, to concentrate all of our production of coins of
ıew material on the quarter. We felt that if supplies of quarters, nickels and
.es were plentiful that we could avoid a coin crisis. After all, two quarters
:eplace a half dollar and two nickels can replace a dime. But it requires
ıast 3 coins to replace a quarter. As a result of this strategy, we were able
ıur into the economy 200 million of the new clad quarters when our supply of
ıuarters dropped to only 15 million last November 1.

Initial circulation of the new clad quarter thus began 101 days from the
ng of the bill to public use of the new coinage.

In addition to the 200 million new quarters issued last November, another
illion quarters have been placed in circulation since then. Production of
ew dimes and half dollars started last December and inventories of both are
rapidly acquired. Both coins will be in circulation in a month or so
large quantities are expected to be available.

Present Silver Situation

Since the necessity for the new coinage resulted from the rapid depletion ır silver stocks, I should like to review for you the silver situation. :rux of the matter was that there was simply not enough silver appearing on the :t to satisfy rapidly growing industrial demand and coinage requirements in 'ree World. The Free World silver deficit, wholly aside from U. S. coinage .rements had reached some 130 million ounces by 1964, roughly double the 1957- /erage. And, in 1964 the United States had used 203 million ounces in its ıge and in 1965 before enactment of the Coinage Act this rate was running at : 300 million ounces per year. Silver also had to be made available freely in ınge for silver certificates. There was no likely prospect that the market gap :en silver supply and demand could be appreciably narrowed in the foreseeable :e and U. S. stocks of silver were being depleted rapidly.

During the transition period it was necessary to protect our silver coins so they would not disappear from circulation. Accordingly, during the change- to the new coinage it was and is vital that the market price of silver be :ained at a point where it will not be profitable to melt our present silver :. In order to prevent the value of silver from rising above the monetary value ..29+ per fine troy ounce, we are continuing to redeem silver certificates for :r bullion at the monetary value. Also, the Coinage Act confirmed the Treasury :rity to sell at its monetary value any unobligated silver. As a result, : should be no incentive to hoard or melt silver coins for the value of their :r content. Since the Treasury still has very large stocks of silver -- close :5 million ounces, and since our use of silver for coinage is being very sharply .iled it is quite clear that no one can expect to profit from hoarding either r bullion or silver coins.

The success of our silver policy is illustrated by a considerable lessening eculation in silver evidenced by a substantial reduction in withdrawals of r from the Treasury. In fiscal 1965, withdrawals amounted to 165,099,833 s, or an average of 13.7 million ounces per month. At the present time are running at the rate of 4.1 million ounces per month. Future prices of r have dropped from a high of $1.3870 per ounce on January 4, 1965, to the nt $1.3170 per ounce. These figures are on the basis of 12 months forward acts.

Joint Commission on the Coinage

The Committee may be interested in our plans for the Joint Commission on the ge authorized by the Coinage Act. As you know, this Commission is to be ed by the Secretary of the Treasury and is to consist of other Government ials, Members of Congress, and public members not associated or identified or representative of any directly interested industry or group. It was mplated that this Commission would be established some time after completion e transition to the new coinage. At that time it will study the entire matter nage and silver in the light of any problems which may have arisen in the e of the transition, new technological developments, the silver supply and price tion, etc.

le are very much aware of the contributions which this committee will be able e at the appropriate time. As soon as our operations under the Coinage Act 5 have been in operation for a period long enough to enable the Commission ectively perform its functions we will take steps to proceed with its full ishment. We hope that this transition will be fairly well completed in a r so, when our inventories will have been built up and all the new coins ave been circulating side by side with existing coins long enough to provide

und basis for assessment.

Summary

Briefly, our round-the-clock activities averted a crisis in the fall of
; our crash program of doubled production averted a crisis in 1964 and the
ly action of the Congress, and quick adaptation by the Mint to production of
ive amounts of the new coinage, averted a coin crisis last Fall.

We now have enough coins on hand to take care of demands. Our production
he new clad strip and our press capacity at the three Mint facilities in
adelphia, Denver and San Francisco, will be enough to begin building up
ble inventories to forestall any future shortages.

Our new Mint in Philadelphia will be ready for use in about a year and a
. At that time, we can resume complete, in-house production of all our coins
we shall have the most efficient mint operation in the world. We shall then
ble fully to combine massive production and efficient and economical operation.

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 f
all taxation now or hereafter imposed on the principal or interest thereof by any S
or any of the possessions of the United States, or by any local taxing authority.
purposes of taxation the amount of discount at which Treasury bills are originally
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
under are sold is not considered to accrue until such bills are sold, redeemed or o
wise disposed of, and such bills are excluded from consideration as capital assets.
Accordingly, the owner of Treasury bills (other than life insurance companies) iss
hereunder need include in his income tax return only the difference between the pr
paid for such bills, whether on original issue or on subsequent purchase, and the
actually received either upon sale or redemption at maturity during the taxable ye
for which the return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and this notice, pres
the terms of the Treasury bills and govern the conditions of their issue. Copies o
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 Fe
Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Re
Banks and Branches, following which public anouncement will be made by the Treasu
Department of the amount and price range of accepted bids. Those submitting tend
will be advised of the acceptance or rejection thereof. The Secretary of the Tre
expressly reserves the right to accept or reject any or all tenders, in whole or
part, and his action in any such respect shall be final. Subject to these reserv
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 Fed
Reserve Bank on February 17, 1966, in cash or other immediately available
or in a like face amount of Treasury bills maturing February 17, 1966. Ca
and exchange tenders will receive equal treatment. Cash adjustments will be made
differences between the par value of maturing bills accepted in exchange and the
price of the new bills.

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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX (XIX) February 9, 1966

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two ser of Treasury bills to the aggregate amount of $ 2,300,000,000 (X2X), or thereabouts, f cash and in exchange for Treasury bills maturing February 17, 1966 (X3X), in the amo of $ 2,201,653,000 (X4X), as follows:

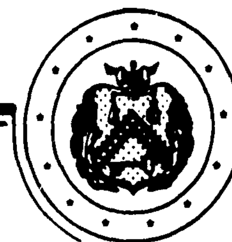
91 (X5X) -day bills (to maturity date) to be issued February 17, 1966 (X6X), in the amount of $ 1,300,000,000 (X7X), or thereabouts, representing an additional amount of bills dated November 18, 1965 (X8X), and to mature May 19, 1966 (X9X), originally issued in the amount of $ 1,000,958,000 (X10X), the additional and original bills to be freely interchangeable.

182 (X11X) -day bills, for $ 1,000,000,000 (X12X), or thereabouts, to be dated February 17, 1966 (X13X), and to mature August 18, 1966 (X14X).

The bills of both series will be issued on a discount basis under competiti and noncompetitive bidding as hereinafter provided, and at maturity their face will be payable without interest. They will be issued in bearer form only, and denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,00 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the cl hour, one-thirty p.m., Eastern Standard time, Monday, February 14, 1966 (X15X). will not be received at the Treasury Department, Washington. Each tender must for an even multiple of $1,000, and in the case of competitive tenders the pric offered must be expressed on the basis of 100, with not more than three decimal e. g., 99.925. Fractions may not be used. It is urged that tenders be made on

REASURY DEPARTMENT



WASHINGTON, D.C.

February 9, 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 isury bills maturing February 17, 1966, in the amount of 201,653,000, as follows:

91-day bills (to maturity date) to be issued February 17, 1966, he amount of $1,300,000,000, or thereabouts, representing an tional amount of bills dated November 18, 1965, and to re May 19, 1966, originally issued in the amount of 100,958,000, the additional and original bills to be freely rchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated uary 17, 1966, and to mature August 18, 1966.

The bills of both series will be issued on a discount basis under etitive and noncompetitive bidding as hereinafter provided, and at rity their face amount will be payable without interest. They be issued in bearer form only, and in denominations of $1,000, 00, $10,000, $50,000, $100,000, $500,000 and $1,000,000 urity value).

Tenders will be received at Federal Reserve Banks and Branches the closing hour, one-thirty p.m., Eastern Standard Monday, February 14, 1966. Tenders will not be ived at the Treasury Department, Washington. Each tender must r an even multiple of $1,000, and in the case of competitive rs the price offered must be expressed on the basis of 100, not more than three decimals, e. g., 99.925. Fractions may not sed. It is urged that tenders be made on the printed forms and rded in the special envelopes which will be supplied by Federal ve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and pric range of accepted bids. Those submitting tenders 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 Federal Reserve Bank on February 17, 1966, cash or other immediately available funds or in a like face amount of Treasury bills maturing February 17, 1966. Cash and exchange ten 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 exclude from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunc 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 tl return is made, as ordinary gain or loss.

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

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Commodity	Period and Quantity		Unit of Quantity	Imports as Jan. 29, 1
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year	1,200,000	Pound	Quota fill
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 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	1,077,

1/ Imports as of February 4, 1966.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 10,1966

F-369

The Bureau of Customs announced today preliminary figures on imports for consumption of the following commodities from the beginning of the respective quota periods through January 29, 1966:

Commodity	Period and Quantity		Unit of Quantity	Imports Jan. 29,
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	15[illegible]
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	
Cattle, 700 lbs. or more each (other than dairy cows) ...	Jan. 1, 1966 - Mar. 31, 1966	120,000	Head	[illegible]
Cattle, less than 200 lbs. each	12 mos. from April 1, 1965	200,000	Head	7[illegible]
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	23,591,432	Pound	Quota f[illegible]
Tuna Fish	Calendar year	To be announced	Pound	5,62[illegible]
White or Irish potatoes:				
Certified seed	12 mos. from	114,000,000	Pound	58,1[illegible]
Other	Sept. 15, 1965	45,000,000	Pound	9,9[illegible]
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1965 - Oct. 31, 1966	84,000,000	Pieces	Quota f[illegible]
Whiskbrooms	Calendar year	1,380,000	Number	[illegible]
Other brooms	Calendar year	2,460,000	Number	[illegible]

1/ Imports for consumption at the quota rate are limited to 5,897,858 pounds during the first 3 months of the calendar year.

TREASURY DEPARTMENT
Washington

IATE RELEASE
SDAY, FEBRUARY 10,1966

F-369

The Bureau of Customs announced today preliminary figures on imports for mption of the following commodities from the beginning of the respective periods through January 29, 1966:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Jan. 29, 1966
f-Rate Quotas:				
, fresh or sour	Calendar year	1,500,000	Gallon	156,282
Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	-
e, 700 lbs. or more each her than dairy cows) ...	Jan. 1, 1966 - Mar. 31, 1966	120,000	Head	6,924
e, less than 200 lbs. h	12 mos. from April 1, 1965	200,000	Head	73,542
fresh or frozen, filed, etc., cod, haddock, e, pollock, cusk, and efish	Calendar year	23,591,432	Pound	Quota filled 1/
Fish	Calendar year	To be announced	Pound	5,629,133
or Irish potatoes:				
tified seed	12 mos. from	114,000,000	Pound	58,116,225
er	Sept. 15, 1965	45,000,000	Pound	9,938,455
s, forks, and spoons h stainless steel dles	Nov. 1, 1965 - Oct. 31, 1966	84,000,000	Pieces	Quota filled
brooms	Calendar year	1,380,000	Number	546,804
brooms	Calendar year	2,460,000	Number	539,160

1/ orts for consumption at the quota rate are limited to 5,897,858 pounds during the first 3 months of the calendar year.

Commodity	Period and Quantity		Unit of Quantity	Imports as Jan. 29, 1
Absolute Quotas:				
Butter substitutes containing over 45% of butterfat, and butter oil	Calendar year	1,200,000	Pound	Quota fill
Fibers of cotton processed but not spun	12 mos. from Sept. 11, 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	1,077,5

1/ Imports as of February 4, 1966.

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 Feb. 7, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965, to Feb. 7, 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.

MMEDIATE RELEASE
THURSDAY, FEBRUARY 10,1966

F-370

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 - February 7, 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	756,135
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 - February 7, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	38,951,024

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, FEBRUARY 10,1966

F-370

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.

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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.

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Established Yearly Quota - 45,656,420 lbs.

Imports August 1, 1965 - February 7, 1966

Staple Length	Allocation	Imports

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 Feb. 7, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965, to Feb. 7, 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.

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TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

THURSDAY, FEBRUARY 10,1966

F-371

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1966, to January 29, 1966, 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 Jan. 29, 1966
Buttons	510,000	Gross	20,726
Cigars	120,000,000	Number	1,110,215
Coconut oil	268,800,000	Pound	121,625,295
Cordage	6,000,000	Pound	879,308
Tobacco	3,900,000	Pound	846,165

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

THURSDAY, FEBRUARY 10,1966 F-371

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Coconut oil	268,800,000	Pound	121,625,295
Cordage	6,000,000	Pound	879,308
Tobacco	3,900,000	Pound	846,165

apply. Under the new system, the concept of "a tax appropriate to the dividend" will no longer be germane, and in the absence of clarifying language in the convention there may be situations in which the calculation of the U.S. tax credit for United Kingdom taxes would be uncertain. The new credit rule is in conformity with the basic objectives of the foreign tax credit provisions of the treaty.

The United Kingdom corporation tax, now a major element of the British tax system, was instituted in the United Kingdom Finance Act of 1965 and cannot apply to profits earned before April 6, 1964. Consequently, the new credit rule in the protocol can affect only dividends paid after that date and before April 6, 1966.

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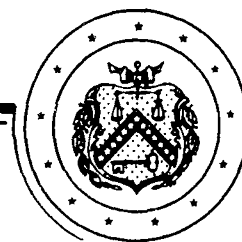
Technical Explanation

The protocol amending the income tax convention between the United States and the United Kingdom will contain, in addition to the provisions described in the Treasury Department press release of January 5, 1966, a provision to the effect that with respect to divideneds paid prior to April 6, 1966 by a United Kingdom corporation, the United States will continue to consider as "United Kingdom tax appropriate to the dividend" the tax which under United Kingdom law is required to be deducted from that dividend when it is paid. However, no United Kingdom tax will be considered "appropriate to the dividend" received by a United States corporation if it claims a credit under Section 902 of the Internal Revenue Code for United Kingdom corporation tax paid by the United Kingdom corporation distributing the dividend.

The new tax credit rule is designed to eliminate uncertainties that might otherwise arise with respect to the credit to be allowed in connection with dividends paid by a British corporation during a transition period when elements of both the old British tax system and the new one

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 9, 1966

FOR RELEASE P.M. NEWSPAPERS
THURSDAY, FEBRUARY 10, 1966

FINAL AGREEMENT REACHED ON U.S.-U.K. TAX TREATY

Final agreement has been reached by the United States and the United Kingdom on amendments to an existing income tax treaty between the two countries, the Treasury announced today.

It is expected that the amendments will be signed in the near future, after which they will be submitted to the Senate for its approval.

The Treasury announced on January 5, 1966 that the United States and the United Kingdom had agreed in principle on the terms of the protocol amending the income tax treaty between the two countries. Modification of the treaty was considered desirable because of changes in the U.K. tax system.

In the January 5, 1966 announcement, it was explained that further consideration was being given to the proper treatment of United Kingdom taxes for U. S. tax credit purposes. This matter has been resolved. In general, U. S. corporations receiving dividends from the United Kingdom will in no case be entitled to a lesser credit than the taxes actually imposed by the United Kingdom and for which a credit could be claimed by the U. S. corporation under the Internal Revenue Code.

(For technical explanation, see attached summary.)

Attached for Background: The January 5, 1966 Treasury Department announcement, and the "Summary of the Terms of Agreement"

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F-372

Technical Explanation

The protocol amending the income tax convention between the United States and the United Kingdom will contain, in addition to the provisions described in the Treasury Department press release of January 5, 1966, a provision to the effect that, for U. S. foreign tax credit purposes, with respect to dividends paid prior to April 6, 1966 by a United Kingdom corporation, the United States will continue to consider as "United Kingdom tax appropriate to the dividend" the tax which under United Kingdom law is required to be deducted from that dividend when it is paid. However, no United Kingdom tax will be considered "appropriate to the dividend" received by a United States corporation if it claims a credit under Section 902 of the Internal Revenue Code for United Kingdom corporation tax paid by the United Kingdom corporation distributing the dividend.

The new tax credit rule is designed to eliminate uncertainties that might otherwise arise with respect to the U. S. tax credit to be allowed in connection with dividends paid by a British corporation during a transition period when elements of both the old British tax system and the new one apply. Under the new system, the concept of "a tax appropriate to the dividend" will no longer be germane, and in the absence of clarifying language in the convention there may be situations in which the calculation of the U.S. tax credit for United Kingdom taxes would be uncertain. The new credit rule is in conformity with the basic objectives of the foreign tax credit provisions of the treaty.

The United Kingdom corporation tax, now a major element of the British tax system, was instituted in the United Kingdom Finance Act of 1965 and cannot apply to profits earned before April 6, 1964. Consequently, the new credit rule in the protocol can affect only dividends paid after that date and before April 6, 1966.

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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

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.

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

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.

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

FOR RELEASE AM NEWSPAPERS
FRIDAY, FEBRUARY 11, 1966

REMARKS BY THE HONORABLE TRUE DAVIS
ASSISTANT SECRETARY OF THE TREASURY
AT THE UNIVERSITY OF MISSOURI LAW SCHOOL
COLUMBIA, MISSOURI
THURSDAY, FEBRUARY 10, 1966
7:30 P.M., CST

The International Monetary System

It is medicinal to come here, to return here, to let the mid-continent feel of things sink in, to be assured and bolstered by the sweep and depth of American achievement seen, as it can only truly be seen, from the nation's great sustaining heartland. There is nowhere else, that I know of -- after quite a bit of travelling -- where one can fly for more than two hours at modern jet transport speeds from the nation's capital, and, upon landing, find that he is still at the leading edge of education and of industrial skills, that standards of the arts and the sciences are as high as they are anywhere, that the heartlands of America, far from passively accepting national traditions and understanding of the national purposes created elsewhere, are originators in these vital areas of the nation's life.

This, if I may digress from my principal subject for another moment, is the conformism, if you will, that makes America strong: the knowledge everywhere of the best that the nation affords anywhere, and the use of that knowledge to make standards everywhere compare favorably to the highest standards.

It is the widening and deepening and perfecting of this American tendency to level things upwards that is the objective of President Johnson's Great Society programs. A Great Society is not one that is great in some places, among some people. It is one in which the whole genius of the people is discovered and given the fullest opportunity to develop, without distinction as to the color of skin in which genius happens to come disguised, or whether genius happens to be born -- as it does happen to be born -- on a remote farm, in a city slum, or at the gates of some great center of learning.

This is why education and health programs lie at the very heart of the Great Society prospectus President Johnson has placed before the nation, and at the core of the war on poverty.

But the Great Society is not intended only to make sure that we are able to find and permit the full development of unusual talent, important as that is. On the contrary, the Great Society is neither for nor by any elite. It is a society in which all are given the chance that has always been the basic American promise, the chance to perform up to the highest standards they personally can attain.

Only when this is done will the nation be getting the benefit of its full human resources. And, to the extent that we blot out pools of ignorance, ill health and want we will be able to enjoy, even more fully, that national conformity to high standards that lends a pervasive cohesion and sense of purpose to American life. The Great Society is a restatement of, and rededication to, the oldest American objective: a land of free people with full equality of opportunity. It is provision against the disabilities of conditions all too common elsewhere, in which a few great centers of learning and technology contrast with generally low standards, making it possible for the national purpose to be commanded by a few of the elite, in a few great cities -- or in only one -- all problems referred to the center, all decisions radiating from that center.

The Great Society aims at ensuring that in the United States, despite the higher demands we must now meet if we are to continue to have a generally educated and technologically capable public, we shall in the future, as now, be able to rest our strength in the fact that the whole nation debates national policies.

The fact that we do make our policies in this way is the reason I have come here today to discuss, before a law school audience, a national concern -- improvement of the international monetary system -- that in other nations at a comparable remove from the policy making center might be regarded as too remote, in terms of subject matter and of geography, from your daily lives to be of interest to you.

In real terms of course, there is no remoteness: improvement of the international monetary system is a matter that involves the future value of the dollar that we all use alike. The good functioning of the international monetary system involves the ability of businesses in every part of the nation -- and of farms everywhere -- to sell their products abroad, and to compete here at home with foreign products. And, very importantly, the international monetary system must be such as to help us -- and encourage increasing participation of others in the Free World -- in carrying out economic, cultural and military programs abroad aimed at giving

the world of the future a chance to evolve toward the kind of society of free men of equal opportunity that we are building here. President Johnson reminded us only last Sunday, in his speech at Honolulu, that we have a vital interest in programs for building and for defending abroad, because these programs, together, preserve growing room for freedom overseas, while they keep threats to our own freedom at the maximum remove.

One of the great forces for preserving and extending the writ of freedom in recent years has been the adoption and the spread in use of a growing system of international cooperation. The participants in organizations such as the North Atlantic Treaty Organization, the General Agreement on Tariffs and Trade, the United Nations, the World Bank and its affiliates, the Alliance for Progress in Latin America, the projected Asian Development Bank, and many others, are increasingly meshed in a network of mutual benefits.

These institutions build the conviction that the highest profit for each is to be found in the highest general level of growth and progress. What is learned, in essence, is that there is nothing to be gained by subtraction from another that cannot be gained ten times over -- at least -- through cooperation aimed at multiplying the overall available resources for improving our lives, national and personal.

One of the most important, extensive, effective, and beneficial of all the international systems of cooperation is one that I did not name before, for the simple reason that it has not got a name, unless you consider the generality, international monetary system, to be a name.

Before discussing this system, and the effort your government is making to ensure its continued good functioning in the future, I must put in a word or two about the United States balance of payments. It is the facts that we have been running big payments deficits, but that we will not be doing so in the future, that create the need for the chief change in the international monetary system that the United States has suggested: a new way, or ways, of creating international monetary reserves in the future.

Why is this so?

First comes the fact that the United States dollar is the chief reserve currency in the world. This arises from the size and productivity of the U. S. economy and from the fact that we alone make our currency freely convertible to gold, at a fixed price, for official foreign holders of dollars.

Second, the U. S. has been running balance of payments deficits during the past decade and a half. That is, we have been paying out to the world more than we have taken in. The outflow of dollars does not result from trade. On the contrary, on trade alone, we have large annual surpluses -- lately, in the region of $5 billion surpluses of exports over imports annually. We have had balance of payments deficits because our payments abroad for private investment, bank and other lending abroad, foreign assistance and military operations have been greater than our trade surpluses and our income from loans and investments abroad. Consequently, since 1950 we have wound up with dollar payments to the rest of the world in excess of our receipts in every year but one -- 1957, when financial flows were distorted by the Suez crisis -- on the overall, or liquidity, accounting basis. Looked at on the other principal accounting basis, called the official transactions accounts, the record is essentially the same, although the deficits tend to be smaller. Although it is necessary to specify what accounting basis we are using, I think you will agree that for our purposes we need not delay to examine the differences in these methods of assessing our payments position abroad. Each has its particular value and uses.

Our deficits have run as high as $2.5 billion or more in six out of the last ten years, on the overall accounting basis. They averaged $2-3/4 billion in the five years 1960-1964, inclusive. Last year -- calendar 1965 --the deficit fell to an estimated $1.3 billion. Most international payments deficits since 1957 have been at least twice that size.

This improvement followed upon a new and vigorous balance of payments program instituted by President Johnson last year. The new program continued the previous strong pressure upon all government programs involving spending abroad to eliminate balance of payments costs to the greatest possible extent. This is done chiefly by specifying that U. S. funds should be used for purchases in the United States, not elsewhere. In this way the balance of payments cost of the program is reduced or eliminated because dollar flows to foreign quarters are reduced or eliminated.

The balance of payments program initiated by President Johnson a year ago this month added something new. This was a nationwide program of voluntary cooperation by lenders and other businessmen to bring home excess dollar balances held overseas, and to reduce dollar loans and investment flows to foreign parts.

The 1966 balance of payments program continues and further tightens this program, with the objective of bringing out foreign accounts into equilibrium at an early date, and of keeping them in equilibrium thereafter.

Now, dollar deficits from 1958 through 1964 have provided the world with something like three fourths of the increases that have occurred in world monetary reserves.

Clearly, if reserves are going to go on increasing in good relation to desirable economic growth in the world after U. S. payments deficits are ended, something must be done to substitute for the dollar flows that would result if our deficits continued. That is why it is necessary at this time to seek agreement with other principal reserve holding nations on provisions for some new means of increasing world monetary reserves in the future. Otherwise, world economic growth would stand to be hampered, if not halted outright, at some point in the not very distant future.

You may ask, why, if bringing our payments into equilibrium may have a potential undesirable side effect of such magnitude, why are we pressing so hard to balance our payments?

One reason is to be found in the United States gold reserve. Since we guarantee full conversion of our currency into gold, for official foreign holders of dollars, every dollar sent abroad is a potential drain on our gold reserve. In fact, the dollar deficits that have been stored in foreign reserves in recent years have been used to draw down our gold reserve from a total of $24.6 billion at the end of 1949 to $13.8 billion estimated for the end of 1965. Obviously, this process cannot be permitted to continue, or else we will run out of reserves. The only way to end it is to bring an end to the accumulation abroad of dollar claims on our gold, and the only way to do that is to bring our payments into equilibrium.

The second reason is related. It is, simply, that money is like anything else. A surfeit of it reduces its value. When, through constant dollar flows abroad, foreign holders accumulate more dollars than they believe they need to have as a working currency, and as a reserve store of value, they tend to downgrade it.

They signal this, first, by trading dollar reserves for gold. But if the process is permitted to go on, the dollar's international exchange value against other currencies will slip. When that happens, it will not be long before the dollar you use at home will tend to decline in value in relation to other currencies.

<u>Third</u>, in these conditions -- dollars being traded for gold instead of being held in reserves -- continued large dollar payments deficits would tend to reduce the world's monetary reserves, instead of increasing them, because there would be a tendency for more dollars to be turned in for gold than were added to reserves. Thus, balances that might have been reserves of a foreign country would be "extinguished." The other country's reserves would stay the same, because it would merely change part of its reserves from dollars into gold. But, since our gold stock is our monetary reserve, and since part of our gold would become foreign owned, our reserves, and, consequently, total world reserves, would be reduced in this process.

So, we must bring our payments into balance, and, meantime seek ways to increase reserves other than by dollar payments deficits or by accumulation of gold.

Gold, I might say, is being added to official reserves at a rate in no way comparable to world economic growth. In fact, last year, all newly available gold went into private hands.

Secretary of the Treasury Fowler last summer launched an effort to get early agreement on how to keep reserves adequate in the absence of large United States net dollar outflows. Negotiations are now actively in progress among what is known as the Group of Ten -- Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States -- the principal holders of international monetary reserves.

The Group of Ten is to report upon its negotiations this Spring. After that, a second stage will be opened, involving the International Monetary Fund and, through it, the less developed nations of the world. The less industrialized countries have a major stake in seeing world liquidity adequately maintained. Inadequate reserves would in time tend to dampen the growth of world trade, and the development of these countries depends in a major degree upon the development of the world trade, through which they exchange their products for capital, capital goods and services.

While precise current positions cannot of course be discussed in the midst of the Group of Ten discussions that have been going forward in Paris, it can be said that the United States believes that there is a definite need to move now to provide for future world liquidity because even if everything moves along as smoothly as possible the new devices for creating reserves could probably not be in full effect for another two years, at least. Further, the United States believes that the future increase in reserves should be sought in a flexible, dual approach. This would involve the greater use by nations needing reserves of their automatic right to draw funds -- to be repaid later -- from the International Monetary Fund. And it would involve agreement upon a separate, new reserve asset that would enter into world reserve holdings not as a substitute for, but in addition to, the present international reserve assets, chiefly gold and dollars.

The International Monetary Fund stands out in any discussion of the monetary system, and in United States ideas for improving international monetary arrangements. Let us look a moment at its origins and functions in the system.

While World War II was still going on, the Allied nations held an international monetary conference in 1944, at Bretton Woods, New Hampshire. From that conference there emerged certain general principles that have formed the foundation of the international monetary system during the past two decades, with the International Monetary Fund occupying a central place.

The experience of the inter-war period had vividly impressed the delegates to the conference at Bretton Woods. They, therefore, established an international monetary system designed to obviate the evils they knew. First, to avoid the competitive monetary devaluations that had marked -- nay, branded -- the 1930s, they established the International Monetary Fund as a stabilizing agency, where exchange rates would be registered and fixed, not to be altered except when a country's fundamental economic position changed to an extent requiring a change in its money's value. This established two principles: first, that exchange rates should be changed only for compelling -- not cut-throat or beggar-thy-neighbor -- reasons and, second, that exchange rate stability is not the same as exchange rate paralysis: for good reasons, exchange rates can and should be altered.

The second major element, also embodied in the IMF, was the provision there of a pool of international credit which could supplement the reserves of individual countries by establishing specified lines of credit availability.

The third major principle was that current exchange transactions -- the transactions paying for international trade in goods and services -- should be carried out freely without exchange restrictions.

Continental Europe recovered its financial strength rapidly after the exchange adjustments in 1949, and with the help of the Marshall Plan and large U. S. military expenditures in Europe.

During this period, the world seemed to be carrying out more and more successfully the objectives of the Bretton Woods Conference. The international monetary system appeared to be making steady progress and to be serving the world well. The postwar economic recovery of Europe was in striking contrast to the difficulties that had been encountered in the first fifteen years after World I. The burden of postwar indebtedness to the United States was extremely moderate because of the enormous quantity of our resources made available to Europe through the Lend-Lease System and the Marshall Plan.

Recent Additions to International Monetary Cooperation

In 1958-59, national quotas in the International Monetary Fund were increased by 50 percent across the board, with additional selective increases for several leading industrial countries. This provided about $2.7 billion in additional gold and European currencies to the Fund, with a total enlargement of its resources of about $5 billion. However, in 1961, it was realized that, even with the quota increase, the resources of the Fund might prove insufficient to meet severe strains on leading currencies and that such strains could threaten to impair the functioning of the monetary system as a whole.

After negotiations carried on during 1961, agreement was reached between the Fund and ten leading industrial countries -- the aforementioned Group of Ten -- under which these countries contracted to provide loans to the Fund under specified conditions, up to $6 billion. This understanding, among the Fund and the Group of Ten, became known as the General Arrangements to Borrow.

There is now in process a further increase in the Fund resources, amounting to 25 percent increases in quotas, across the board, plus additional amounts for a number of individual countries.

Finally, through direct contacts among the monetary authorities of leading countries, additional short-term credit facilities have also been provided through a network of swap facilities, developed by the Federal Reserve System, that has now reached a total of $2.8 billion.

The Tasks Ahead

Against this background, there are, as I have previously mentioned, two basic tasks ahead. Our first major responsibility is to reach and maintain a sustained equilibrium in the United States balance of payments. We are well advanced in this task. We know that we can succeed in it, and will not relax our program for doing so until we succeed.

The second major task, is to improve our international monetary arrangements so that they will continue to meet the needs of the rest of the world and of the United States in the future, when reserves are no longer supplied by U. S. balance of payments deficits, after our payments have been brought into equilibrium.

This has several aspects, but I will focus on one of them, the task, now being approached in the negotiations I mentioned earlier, of providing new means for the growth of international monetary reserves.

The deliberate creation of additional reserve assets differs from anything previously done in somewhat the same way as our nuclear and space activities in the scientific field differ from conventional weapons and conventional aircraft of the past. The world has never before set about this task deliberately. Monetary authorities are going to be careful before they introduce into balance sheets a reserve asset to be held more or less indefinitely.

What are some of the major negotiating problems?

First, there are differing views among the Group of Ten, itself, as to the imminence of a need for additional reserves. During the past decade, they have had large-scale annual increases in reserves amounting to about 10 percent a year. They believe these increases have contributed to the inflationary pressures which present to them their most difficult internal problem of economic policy.

Second, the European concern about inflation also causes them to put a great deal of emphasis on the ways of imposing adequate discipline on countries in deficit to take prompt and effective measures to restore balance. The United States, while agreeing entirely that deficits cannot become a way of life, has also, for its part, endorsed more intensified study of the adjustment process. It is hoped this study will emphasize more clearly the responsibilities of surplus countries, as well as the responsibilities of deficit countries to adopt policies -- internal and external -- leading to a return to equilibrium in their international payments. For instance, the surplus country can move in the direction of equilibrium by increasing -- as many of them should -- their participation in development assistance to the less developed countries, and by liberalizing their trade policies, to permit larger imports.

In conclusion, let me cite a statement that President Johnson made on this subject last October 1. It illustrates, in a nutshell, both the long term view of the problem of the need to improve upon present international monetary arrangements, and the shorter term urgencies that impel your government to counsel action now, in the interests of continued growth and stability in the whole Free World later. I quote:

> "The long period of large U. S. deficits has come to an end. If growth is to continue and trade is to expand, we must provide an effective and adequate substitute.
>
> "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 which the entire world demands. It will not be enough in the future any more than it has been in the past.
>
> "There is no shortage of plans for reforming the world's monetary system.
>
> "Let us try to choose the best. But let us remember the best is sometimes the enemy of the possible. Let us not become so preoccupied by questions of mere detail that we end up doing nothing. Ours is a large and growing world. It has a large and growing trade. Let us provide for this growth."

oOo

toward the President's goal of balanced growth without inflation.

and upon whose shoulders rests the responsibility for making the Silver Anniversary campaign of the U. S. Savings Bonds program an overwhelming success in 1966.

[There is an ancient litany in the Christian church dating back to about 400 A.D, which reads "In times of prosperity, Good Lord preserve us x"] Those of you who contribute your time & effort to these Savings Bond campaigns have helped your country in different ways at different periods of our recent history. Today, however, it is apparent that you are helping your Govt. move purposefully

price and wage decisions that President Johnson is seeking from every business leader and every leader of labor, represents an investment in the nation's economic well-being.

We should -- very soon now -- have an announcement that will provide an added spark to the success of our 25th anniversary savings bond campaign. President Johnson, as you know, recently directed the Treasury to increase the rate of interest on savings bonds, both the newly issued ones and all that are currently outstanding. I expect that announcement will be coming in a few days.

I would like to conclude, now, with a word of thanks to our savings bond volunteers -- the dedicated men and women who get important things done for their neighbors and their country --

of the nation -- but they are more important today than ever before.

Today I am happy to say that U. S. Savings Bonds account for about 23 percent of the publicly held national debt. ~~Of even greater significance is the fact that a large and growing portion of the national debt is held -- through the increasing sale of savings bonds -- b~~

These investments in Savings Bonds repre[sent]

y genuine, bona fide, long-term savers.

The savings bond program has really achieved an impressive record and we in the Treasury are justly proud of that record.

No other country has achieved anything like the broad public participation in financing a government that we -- as a direct result of the Savings Bond program -- take largely as a matter of course in the United States.

The purchase of a savings bond, no less than the moderate

of government financing wherever possible.

What all this adds up to is that now as seldom before in the peacetime history of our savings bonds program, the purchase of savings bonds by individuals -- particularly through the payroll savings program -- has taken on an added dimension of importance in the economic policy of the United States.

For each dollar of debt that we finance in this way allows us, ~~by increasing the length of the debt~~, to strengthen the long-term stability of our economy, & to reduce our present inflationary pressures.

Thus the purpose of our meeting today takes on an added importance in the light of our current economic climate.

Savings bonds have always been important -- both to the individual who invests in them and to the economic well-being

That is why we have made repeated efforts to lengthen the average term of the public debt. That is why, in our debt management operations, we have consistently attempted -- wherever possible under existing restrictions -- to focus new borrowing in the long and medium term area.

This is not always easy. Particularly in times when the economy is moving strongly ahead, as it is at present. The opportunities for government to increase the average length of the national debt are not as great as we would like.

At the same time during a period of rapid economic expansio there is greater danger in financing the debt through the commercial banking structure. Such debt financing, as you know, can have the effect of multiplying credit expansion, and I am proud of our record over recent years in avoiding this method

Most people are aware of the importance of expenditure policy and tax policy in preventing inflation. Most people are also aware of the importance of monetary policy. Few people, however, are aware of the important role of debt management.

Insert

The truth is that preventing inflation requires more than strict control of expenditures, more than a tax policy adequate to current needs, more than the prevention of excessive credit expansion. The financing of the present public debt -- which is now more than $300 billion -- as well as the additional amounts of debt which our necessary deficits add to this total -- is also important in reducing any inflationary potential in the economy.

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 Vietnam, 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 Vietnam situation requires additional revenu he will not hesitate to go to the Congress to ask for them.

At this time when avoiding inflation is a major concern of the United States and an essential goal of national policy it is important that we use every economic tool available with maximum effectiveness.

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 Vietnam 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.

The question is often asked: Why did we select a package of temporary postponements of excise tax reductions plus what

what's done ~~is done~~, and it ~~would be pointless to~~ try ~~to turn back the clock~~. That step alone changed the "economic mix." Another, later development, involves the tax proposals President Johnson now has before Congress. These are designed not only to produce about $6 billion in additional revenues over two fiscal years -- fiscal year 1966 and fiscal year 1967 starting July 1 -- but also to serve as a moderating influence in an economy which, ~~we hope, will~~ should continue to expand at sustainable levels throughout 1966 and beyond.

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 Administrati

message to Congress, on January 27, when he said the extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures "will depend directly on the restraint and moderation exercised by those who have power over wages and prices."

Although there are some who seem to want to jam on the brakes now, the most careful appraisals of the economic outlook we have managed to make do not justify such a drastic course.

Over the past few weeks, as I'm sure you all know, the "economic mix" in Washington has been modified.

The Federal Reserve Board last December approved an increas in the discount rate. ~~While we differed with the policy-makers of the Federal Reserve System about the timing of that step,~~

serious economic challenge in 1966" the task of preserving the essential stability of costs and prices which has contributed so significantly to our balanced economic progress.

In an economy moving closer and closer to full use of its resources, the requirements of Vietnam are making the task of maintaining price stability more difficult. ~~In money terms~~ alone, Vietnam ~~is adding $10.5~~ 4.7 billion to the cost of government in the current ~~fiscal year and in the fiscal year starting July 1, 1966.~~

Maintaining price stability, of course, is not just something for the Federal Government to worry about.

It is the responsibility of every American.

President Johnson certainly made that clear in his economic

During the past five years we have faced up to other problems and we have found that recessions are NOT inevitable; we have learned that high production does not necessarily mean over-production.

We have learned, too, that carefully-tuned government fiscal policies can contribute to higher levels of employment and lower levels of unemployment -- and that this can be done within the context of reasonable price stability.

The gap between "potential" gross national product and the actual rate of GNP growth now is narrowing. We all are aware of this. And no one will contend that the economic problems of prosperity can be swept under the rug.

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UNDER SECRETARY OF THE TREASURY
BEFORE U. S. SAVINGS BONDS VOLUNTEER CONFERENCE
SHOREHAM HOTEL, WASHINGTON, D. C.
THURSDAY, FEBRUARY 10, 1966, 2 P.M., EST

~~The past five years offer startling proof of the effectiveness of the "New Economics" in helping to bring our economy out of the rut of boom and recession onto a new and higher plane of strength and steady growth.~~

There is today -- I'm happy to say -- a much greater awareness that fiscal and monetary policies can be used to help match total demand to our growing productive potential, while spurring the growth of that potential through education, research and development, manpower policies and enlarged public and private investment.

This awareness -- in the country & in the Cong[ress] has helped to bring our economy onto a n[ew] & higher plane of strength & steady growth x

The very effectiveness of national economic policy, in fact, has brought us new problems -- ~~certainly not problems to fear -- but actually~~ the much more welcome but strangely unfamiliar problems ~~the welcome problems of prosperity.~~ of prosperity x

TREASURY DEPARTMENT
WASHINGTON

FOR RELEASE UPON DELIVERY

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The very effectiveness of national economic policy, in fact, has brought us new problems -- the much more welcome but strangely unfamiliar problems of prosperity.

During the past five years we have faced up to other problems and we have found that recessions are NOT inevitable; we have learned that high production does not necessarily mean overproduction.

We have learned, too, that carefully-tuned government fiscal policies can contribute to higher levels of employment and lower levels of unemployment -- and that this can be done within the context of reasonable price stability.

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President Johnson recently defined as possibly "our most serious economic challenge in 1966" the task of preserving the essential stability of costs and prices which has contributed so significantly to our balanced economic progress.

In an economy moving closer and closer to full use of its resources, the requirements of Vietnam are making the task of maintaining price stability more difficult.

Maintaining price stability, of course, is not just something for the Federal Government to worry about.

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President Johnson certainly made that clear in his economic message to Congress, on January 27, when he said the extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures "will depend directly on the restraint and moderation exercised by those who have power over wages and prices."

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Over the past few weeks, as I'm sure you all know, the "economic mix" in Washington has been modified.

The Federal Reserve Board last December approved an increase in the discount rate. That step alone changed the "economic mix." Another, later development, involves the tax proposals President Johnson now has before Congress. These are designed not only to produce about $6 billion in additional revenues over two fiscal years -- fiscal year 1966 and fiscal year 1967,starting July 1 -- but also to serve as a moderating influence in an economy which should continue to expand at sustainable levels throughout 1966 and beyond.

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 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 Vietnam 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.

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 Vietnam, 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 Vietnam situation requires additional revenues, he will not hesitate to go to the Congress to ask for them.

At this time when avoiding inflation is a major concern of the United States and an essential goal of national policy, it is important that we use every economic tool available with maximum effectiveness.

Most people are aware of the importance of expenditure policy and tax policy in preventing inflation. Most people are also aware of the importance of monetary policy. Few people, however, are aware of the important role of debt management.

The financing of the public debt -- which stands at about $320 billion -- offers an additional tool which can be used as a moderating force in times of expansion and a stimulating force in times of recession. By moving into the longer maturities in boom times and by retreating into shorter areas in times of slack, the debt managers of the Treasury can also play their role in keeping the economy moving in a non-inflationary growth pattern.

The Treasury's willingness to employ this tool was demonstrated in our most recent debt management operations when we moved out as far as possible in the maturity range to meet our financing obligations.

This is not always easy-- particularly in times when the economy is moving strongly ahead, as it is at present. The

opportunities for government to increase the average length of the national debt are not as great as we would like.

At the same time during a period of rapid economic expansion, there is greater danger in financing the debt through the commercial banking structure. Such debt financing, as you know, can have the effect of multiplying credit expansion, and I am proud of our record over recent years in avoiding this method of government financing wherever possible.

What all this adds up to is that now as seldom before in the peacetime history of our savings bonds program, the purchase of savings bonds by individuals -- particularly through the payroll savings program -- has taken on an added dimension of importance in the economic policy of the United States.

For each dollar of debt that we finance in this way allows us to strengthen the long-term stability of our economy and to reduce any present inflationary pressures.

Thus the purpose of our meeting today takes on an added importance in the light of our current economic climate.

Savings bonds have always been important -- both to the individual who invests in them and to the economic well-being of the nation -- but they are more important today than ever before.

Today, I am happy to say that U.S. Savings Bonds account for about 23 percent of the publicly held national debt. These investments in Savings Bonds represent genuine, bona fide, long-term savers.

The Savings Bond program has really achieved an impressive record and we in the Treasury are justly proud of that record.

No other country has achieved anything like the broad public participation in financing a government that we -- as a direct result of the Savings Bond program -- take largely as a matter of course in the United States.

The purchase of a Savings Bond, no less than the moderate price and wage decisions that President Johnson is seeking from every business leader and every leader of labor, represents an

investment in the nation's economic well-being.

We should -- very soon now -- have an announcement that will provide an added spark to the success of our 25th anniversary Savings Bond campaign. President Johnson, as you know, recently directed the Treasury to increase the rate of interest on Savings Bonds, both the newly issued ones and all that are currently outstanding. I expect that announcement will be coming in a few days.

I would like to conclude, now, with a word of thanks to our Savings Bond volunteers -- the dedicated men and women who get important things done for their neighbors and their country -- and upon whose shoulders rests the responsibility for making the Silver Anniversary campaign of the U.S. Savings Bonds program an overwhelming success in 1966.

Those of you who contribute your time and effort to these Savings Bond campaigns have helped your country in different ways at different periods of our recent history. Today, however, it is apparent that you are helping your government move purposefully toward the President's goal of balanced growth without inflation.

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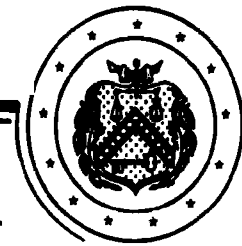
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 11, 1966

FOR IMMEDIATE RELEASE

JOHN H. AUTEN NAMED
DIRECTOR OF OFFICE OF FINANCIAL ANALYSIS

Treasury Secretary Henry H. Fowler today announced the appointment of John H. Auten as Director of the Office of Financial Analysis. Mr. Auten, who joined the Treasury on July 1, 1963, has served as Deputy Director of the Office since April 1964.

The Office of Financial Analysis is primarily responsible within the Treasury for the review and analysis of current monetary and business developments. It also undertakes special studies of domestic and international economic problems, frequently in cooperation with other offices of the Department. The activities of the Office are under the general supervision of the Deputy Under Secretary for Monetary Affairs.

Mr. Auten was born in Ames, Iowa, on June 29, 1922. He attended public schools in Columbus, Ohio, served in the Air Force during World War II, and was graduated from Ohio State University with a B.S. degree in 1947. He began graduate work in economics at Ohio State University and continued at the Massachusetts Institute of Technology before traveling to New Zealand under the Fulbright program in 1950-51. Mr. Auten was awarded the Ph.D. degree from the Massachusetts Institute of Technology in 1954. He has served on the faculties of Ohio State University and Rice University where he was Professor of Economics. He is a member of the American Economics Association and the American Finance Association.

Mr. Auten and his wife, the former Ethel Anne Pye, have three children. They reside at 3603 North Abingdon Street, Arlington, Virginia.

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He served as a staff economist with the Council of Economic Advisers in 1947-1948 and as an economist on the staff of the Federal Reserve Board, 1948-1950.

Mr. White, who was a Fulbright Professor in Norway and France in 1956-1957, also has been a consultant on various fiscal projects for the City of New York. He also has served as a research associate with the National Bureau of Economic Research, New York, and has performed research work for the Brookings Institution, Washington. He is the author of numerous articles in various economic journals, and is a member of several professional organizations in the field of economics.

Mr. White is married to the former Anne Schapiro, who also is ~~an economist~~. They have four children and make their home at 5405 Newington Road, Bethesda, Maryland.

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DRAFT PRESS RELEASE

MELVIN I. WHITE NAMED TO TREASURY POST

Treasury Secretary Henry H. Fowler today announced the appointment of Melvin I. White, of New York, as Deputy Assistant Secretary of the Treasury for Tax Policy. Mr. White will serve as deputy to Assistant Secretary Stanley S. Surrey. Mr. White has been a professor of economics at Brooklyn College, City University of New York, since 1950. He will be on leave of absence from that university.

He has been serving as a Treasury Department consultant on tax matters since 1962.

A native of Cincinnati, Ohio, Mr. White, 48, holds a B.A. degree from the University of Cincinnati and a Ph.D. in economics from Columbia University.

TREASURY DEPARTMENT

WASHINGTON, D.C.

February 14, 1966

RELEASE A.M. NEWSPAPERS
TUESDAY, FEBRUARY 15, 1966

MELVIN I. WHITE NAMED TO TREASURY POST

Treasury Secretary Henry H. Fowler today announced the appointment of Melvin I. White, of New York, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. White, who will serve as deputy to Assistant Secretary Stanley S. Surrey, has been a professor of economics at Brooklyn College, City University of New York, since 1950. He will be on leave of absence from that university.

He has been serving as a Treasury Department consultant on tax matters since 1962.

A native of Cincinnati, Ohio, Mr. White, 48, holds a B.A. degree from the University of Cincinnati and a Ph.D. in economics from Columbia University.

He served as a staff economist with the Council of Economic Advisers in 1947-1948 and as an economist on the staff of the Federal Reserve Board, 1948-1950.

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Mr. White is married to the former Anne Schapiro, who also is a statistician. They have four children and make their home at 5405 Newington Road, Bethesda, Maryland.

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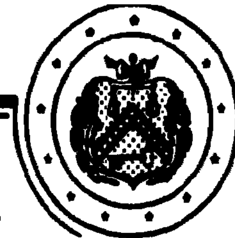
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, February 14, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, series to be an additional issue of the bills dated November 18, 1965, and the other es to be dated February 17, 1966, which were offered on February 9, 1966, were opened he Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or there-ts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The ils of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing May 19, 1966		182-day Treasury bills maturing August 18, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.819	4.672%	97.542 a/	4.862%
Low	98.811	4.704%	97.531	4.884%
Average	98.813	4.695% 1/	97.535	4.876% 1/

a/Excepting 2 tenders totaling $900,000
23% of the amount of 91-day bills bid for at the low price was accepted
47% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	Applied For	Accepted
ston	$ 41,366,000	$ 31,366,000	$ 23,071,000	$ 9,176,000
York	1,609,405,000	872,350,000	1,351,195,000	622,345,000
iladelphia	32,984,000	20,904,000	12,839,000	4,539,000
eveland	34,068,000	30,218,000	51,104,000	40,404,000
chmond	12,342,000	11,174,000	4,950,000	4,645,000
lanta	43,072,000	31,277,000	25,440,000	15,640,000
icago	321,925,000	144,335,000	294,846,000	147,196,000
. Louis	55,774,000	40,934,000	25,896,000	18,696,000
neapolis	20,978,000	14,723,000	11,238,000	8,208,000
sas City	24,027,000	23,453,000	15,189,000	14,514,000
llas	22,317,000	12,317,000	13,309,000	8,309,000
Francisco	147,000,000	67,591,000	154,557,000	106,674,000
TOTALS	$2,365,258,000	$1,300,642,000 b/	$1,983,634,000	$1,000,346,000 c/

ncludes $266,574,000 noncompetitive tenders accepted at the average price of 98.813
ncludes $111,958,000 noncompetitive tenders accepted at the average price of 97.535
nese rates are on a bank discount basis. The equivalent coupon issue yields are
.82% for the 91-day bills, and 5.07% for the 182-day bills.

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Prior to 1951, Mr. Brannon was assistant professor of economics at the University of Notre Dame. Since 1951 he has been a lecturer at the Graduate School of Georgetown University.

Born in Manila, the Philippines, in 1922, Mr. Brannon holds A.B. and M.A. degrees from Georgetown University and a Ph.D. from Harvard University where he was a Littauer Fellow.

Mr. Brannon is married to the former Frances Maguire. They have five children and make their home at 4813 North 24th Street, Arlington, Virginia.

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DRAFT RELEASE

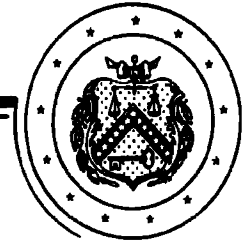
BRANNON NAMED HEAD OF TREASURY'S
OFFICE OF TAX ANALYSIS

Treasury Secretary Henry H. Fowler today ~~announced the~~ appoint~~ment of~~ Gerard M. Brannon as Director of the Treasury's Office of Tax Analysis.

Mr. Brannon, 43, who has been associate director of the Office of Tax Analysis, joined the Treasury in May 1963. Previously, he was for six years the staff economist for the House Ways and Means Committee. Before that he served for six years as an economist on the staff of the Joint Committee on Internal Revenue Taxation.

The Treasury's Office of Tax Analysis prepares economic, statistical and technical analyses relating to federal tax policies.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 15, 1966

RELEASE A.M. NEWSPAPERS
WEDNESDAY, FEBRUARY 16, 1966

BRANNON NAMED HEAD OF TREASURY'S OFFICE OF TAX ANALYSIS

Treasury Secretary Henry H. Fowler today designated Gerard M. Brannon as Director of the Treasury's Office of Tax Analysis.

Mr. Brannon, 43, who has been Associate Director of the Office of Tax Analysis, joined the Treasury in May 1963. Previously, he was for six years the staff economist for the House Ways and Means Committee. Before that he served for six years as an economist on the staff of the Joint Committee on Internal Revenue Taxation.

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In concluding my part of these remarks with a summary of our gold transactions, I want to emphasize that gold movements are not necessarily related to the balance of payments in any one year. Gold claims arise from official dollar balances accumulated in any year, past or present.

Net gold sales last year amounted to nearly $1.7 billion, of which $259 million represented a gold payment to the International Monetary Fund in connection with an increase in our drawing rights, and $118 million represented sales to domestic industrial users. Of the remaining $1.3 billion gold sales, $1.1 billion occurred during the first half and $177 million during the second half of the year.

The steady decline in gold sales throughout the year, along with some strengthening of the dollar in foreign exchange markets suggests a healthy state of foreign confidence in the dollar.

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Favorable items included the following:

The largest single impact of our balance of payments program, through the end of 1965, was in the field of bank credit. Outflows of short and long term credit reported by banks, which were almost $2.5 billion in 1964, shifted to a slight inflow in 1965.

In addition -- although the information on this point is still incomplete -- non-bank claims on foreigners, excluding United States purchases of foreign securities, shifted from an outflow in 1964 of over $900 million to an inflow in 1965 which we estimate at around $300 million. More than half of this estimated $1.2 billion shift in non-bank flows last year represents repatriation of liquid funds by financial and non-financial corporations in response to the voluntary program.

already been made. What is encouraging is that there was a substantial improvement during the year. Secretary Connor will tell you more about this program and the outlook for 1966.

Net transactions in foreign securities, new and outstanding remained almost unchanged in 1965 from the 1964 level, due to the Interest Equalization Tax and the voluntary program for restraint by non-bank financial institutions.

One major unfavorable factor was of a quite special character. This was the shift during 1965 of some United States securities, and some other long term assets held by the United Kingdom government, into short term liquid assets. The change in type of asset held affects our deficit. The amount involved was some $500 million. This item largely explains the figure in the table that you have for net sales of United States securities by foreigners.

The largest adverse change in our payments last year was the decline of nearly $1.9 billion in our trade surplus. This was due, as you can see, to an increase of nearly $2.9 billion (about 15 percent) in imports, while our gain for the year on exports was only $1.0 billion, or 4 percent. The trade surplus for the year was $4.8 billion as compared with $6.7 billion in 1964; but in the fourth quarter of 1965 it was running at an annual rate of about $5.2 billion.

Our tourist deficit apparently rose again, from $1.6 billion to $1.8 billion.

Direct investment abroad in 1965 was larger than in 1964. But it should be recalled that the new balance of payments program did not get started until February of 1964 -- just a year ago -- and that many investment commitments had

balance and other requirements for some time ahead.

-- American firms repatriated dollars that had been held abroad, to cooperate with the President's program.

-- Tightening of domestic credit in a number of countries inspired foreign banks to shift from dollar to domestic assets.

-- The improvement in the British pound sterling brought about shifts from dollar accounts to sterling accounts.

I will try, in the remainder of my summary, to point out some of the main factors that, taken altogether, added up to last year's achievement, in reducing the deficit on the overall, or liquidity, basis, concluding with a summary of our gold transactions during the year.

Let me begin with the adverse factors affecting our payments in 1965:

less than two thirds the size of the average deficit of $2.2 billion a year, on this same basis, in the seven years 1958 through 1964.

By and large, the official settlements deficit will differ from the liquidity deficit to the extent of change in liquid dollar holdings of private foreigners, since inclusion of these liabilities in the liquidity account is the major difference between the two concepts.

It is characteristic for private dollar balances held abroad to vary their rate of growth sharply from year to year. There was very little increase in private foreign dollar holdings last year, making for very little difference in the two accounts for the year. The chief reasons are:

-- The large increase in privately held dollars abroad in 1964 must have sufficed to satisfy increases in working

rise sharply over the increases presently projected. Let me add and emphasize that as of now the program we have is an effective program,,and we see no reason to change its character.

Secretary Connor will discuss with you the part of the President's balance of payments program that is his responsibility chiefly, international trade and the voluntary program for keeping the growth of American business investment overseas within our balance of payments possibilities.

Governor Robertson will discuss the program concerned with United States lending overseas.

On the other principal accounting basis, the official settlements account, our deficit in 1965 was somewhat less than $1.4 billion.

-- This was slightly larger -- about $126 million -- than the official settlements deficit in 1964.

-- However, the official accounts deficit in 1965 was

With this in mind, we must, certainly, make every effort -- we must not fail in our continuing efforst, both in and out of government -- to find and to make every reasonable and practical offset to the impact of Vietnam on our balance of payments.

But, it should be kept in mind that the balance of payments costs of the Vietnam conflict are not permanent or ordinary costs, and that, although we have made provision for an increase in these costs in our outlook for 1966, it is simply not possible to say at this time how greatly, in fact, they will affect our balance of payments in 1966.

What I can tell you now is that we still have equilibrium, as we have defined it, as our goal for 1966, but we cannot be certain that present measures as they currently operate will lead us to that goal _if_ the foreign exchange costs of Vietnam

I would hope particularly that the Foreign Tax Investors Act, now in the House Ways and Means Committee, could become law this year, providing the basis for a long term expansion of the scale of private foreign portfolio investment in the United States.

This prospect, the increase in investment income, a moderation of direct investment outflows, and a movement toward an expanding trade surplus, interrupted in 1965 by special circumstances, offer the most promising areas for our march toward equilibrium in 1966.

Of course the two main imponderables are the rising balance of payments costs in Southeast Asia in both the military and the aid programs which are the result of Vietnam and the direct and indirect impact of Vietnam on the domestic economy and the balance of trade.

I want to go over with you some of the main components of the 1965 record, as they bear upon the future. There are both favorable and unfavorable elements.

The $1.5 billion net reduction in the payments deficit on an overall basis occurred despite heavy outflows on private capital account during the early months and despite setbacks for the year as a whole in trade and other accounts. The improvement is in very large part attributable to the effectiveness of the program of voluntary cooperation which President Johnson called for in his balance of payments message of February 10, 1965.

This 1965 record, and the tightening and sharpening of this phase of the President's balance of payments program for 1966, give reason to believe that there will be continuing improvement in the private capital area.

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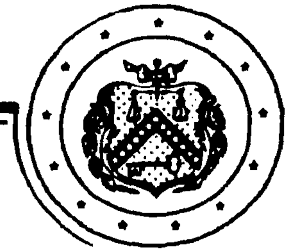
TREASURY DEPARTMENT



WASHINGTON. D.C.

)R IMMEDIATE RELEASE

February 14, 1966

SUBSCRIPTION FIGURES FOR CURRENT REFUNDING

The results of the Treasury's current exchange offering of 4-7/8% notes dated ebruary 15, 1966, maturing August 15, 1967, and 5% notes dated February 15, 1966, turing November 15, 1970, open to holders of $28,758 million of securities maturing om February 15 to August 15, 1966, are summarized in the tables below. Total subcriptions amount to $9,806 million, including $4,962 million of notes maturing ebruary 15 and April 1, 1966, leaving $505 million, or 9.2%, of such notes for cash edemption.

Federal Reserve District	Exchange for the 4-7/8% Notes, E-1967	Exchange for the 5% Notes, A-1970
Boston	$ 18,006,000	$ 391,173,000
New York	1,601,497,000	3,541,058,000
Philadelphia	13,017,000	231,443,000
Cleveland	81,157,000	397,176,000
Richmond	26,438,000	181,203,000
Atlanta	67,423,000	302,686,000
Chicago	122,197,000	1,223,093,000
St. Louis	51,146,000	311,267,000
Minneapolis	11,326,000	221,397,000
Kansas City	28,808,000	322,069,000
Dallas	34,527,000	203,079,000
San Francisco	59,560,000	319,783,000
Treasury	2,744,000	42,215,000
Total	$2,117,846,000	$7,687,642,000

SUMMARY OF AMOUNT AND NUMBER OF SUBSCRIPTIONS BY INVESTOR CLASS

(Dollar amounts in millions)

	4-7/8% Notes E-1967		5% Notes A-1970		TOTAL	
	Amount	No. Sub.	Amount	No. Sub.	Amount	No. Sub.
dividuals 1/	$ 44	1,171	$ 387	19,495	$ 431	20,666
mmercial Banks (Own account)	525	1,650	3,926	13,865	4,451	15,515
others	299	709	2,254	7,639	2,553	8,348
Totals	$ 868	3,530	$6,567	40,999	$7,435	44,529
leral Reserve Banks and Government Accounts	1,250		1,121		2,371	
Grand Totals	$2,118		$7,688		$9,806	

Includes partnerships and personal trust accounts.

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TREASURY DEPARTMENT
Washington

FOR RELEASE AFTERNOON NEWSPAPERS
WEDNESDAY, FEBRUARY 16, 1966

ADDRESS OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
WASHINGTON UNIVERSITY ASSEMBLY SERIES LECTURE
AT GRAHAM MEMORIAL CHAPEL
WASHINGTON UNIVERSITY, ST. LOUIS, MISSOURI,
ON WEDNESDAY, FEBRUARY 16, 1966,
AT 11:00 A.M., C.S.T.

UPDATING OUR INTERNATIONAL MONETARY SYSTEM

It is an honor and a great personal pleasure for me to be a guest lecturer in the Washington University Assembly Series. The honor comes, of course, from the high repute of the lecture series. The personal pleasure derives from the fact that I am a triple alumnus of this University. There is nothing quite like the pleasure of lecturing on a campus where one was lectured at so often.

My academic career here stretched over a period of about 12 years -- from the onset of the Great Depression to just prior to American entry into World War II. Those were eventful years in many respects, and, in relation to my subject today, they may be classed as quite significant. Particularly in the years 1929-35, there was a period of severe testing of the banking and monetary system, both in the United States and internationally.

The University, of course, goes back further than I do. In this Founders Week, it becomes officially 113 years old. Not long ago, I heard a very distinguished statesman and a very distinguished central banker both characterize the international monetary system as lagging a century behind the development of national monetary systems.

These comments caused me to look back into our own monetary history to see what was happening at the time this University was founded. I am not at all sure, after doing

so, that I would draw this conclusion -- at any rate, I would not draw it quite so starkly. In the United States, the year 1853 fell between the demise of the second United States bank in 1836 and the establishment of the national banking system in 1863. It was a time when the average citizen had to be careful as to the money he would accept in day-to-day transactions. It is said that, toward the end of that period, there were in circulation 7,000 different kinds of bank notes, 3,000 varieties of altered notes, 1,700 varieties of spurious notes, and over 800 varieties of imitations One of the major reasons for public support of the National Bank Act was the prospect that a uniform currency could thus be provided. State bank note issues were not taxed out of existence until Congress acted to do so in 1865.

The first Clearing House for daily settlements among American banks was established in 1853 in New York. It was in 1855 that deposits began to exceed notes for the first time, foreshadowing the very striking development of deposit banking in the ensuing century.

Locally, Missouri had established a single State Bank in 1837, in which the State owned two-thirds of the capital. Iowa prohibited all banks until 1857, when it set up a State Bank. It was not until 1857, when St. Louis had become the eighth largest city in the United States, that the monopoly of the State Bank of Missouri was broken and the chartering of nine banks was permitted. By 1859, there were seven banks in St. Louis, one in St. Joseph and one in Lexington.

I would not want to suggest that the problems we face today in the international monetary sphere are, in any degree, the same kinds of problems that faced Missouri and the United States in 1853 or those with which the world was dealing in 1929-33. In fact, the reforms and improvements needed by the domestic monetary system a century ago were much more extensive and fundamental than those that now seem to be called for to improve and modernize the international monetary system. For example, most international transactions by the world business community are now efficiently handled by using two or three major reserve currencies. That is to say, there is no multiplicity of confusing currencies for use in private international trade.

There may be a somewhat greater similarity, however, between the present problem and the groping efforts of the U. S. banking system in the 1850's to find a satisfactory monetary supplement to limited supplies of gold and silver. The domestic banking system has found the answer in Federal Reserve notes and in demand deposits that are readily accepted in trade settlements, in part because their quality is protected by Governmental supervision and sound banking administration.

There is, today, a need to find a supplement to gold and reserve currencies to assure an adequate future growth in the reserve holdings of the national monetary authorities.

One reason that monetary reserves cannot be expected to meet future needs lies in insufficient new gold supplies, and another lies in the fact that the source in recent times of most additions to reserves -- large net dollar outflows -- is not expected to continue.

The new supplies of monetary gold that have become available have been insufficient for some years. New gold has been added to monetary stocks at no more than $500-600 million a year on the average. Preliminary figures suggest that last year no more than half this much new gold became available. That does not measure the amount of gold added to national reserves, however, because countries were able to enlarge their holdings by acquisition of previously existing gold from the International Monetary Fund and the Bank for International Settlements. But, of course, there are limits to those sources.

For a number of years, an outflow of United States dollars has permitted continuing additions to the reserves of the rest of the world. Next to gold, the dollar is the chief international reserve. The dollar outflow resulted from large annual United States balance of payments deficits from 1958 onwards. Since some of these dollars were used to buy U. S. gold, our dollar deficits have also resulted in a redistribution to other countries of a part of our gold stock.

It is not in our interest, nor in that of the world that the United States should continue alone to provide for the growth of reserves by dollar outflows, as it has been doing in recent years, in the form of large balance of payments deficits.

The Secretary of the Treasury made it clear last Summer that the United States would vigorously pursue the goal of equilibrium in its balance of payments and that we would seek, with the rest of the world, agreement upon additional ways of supplying reserves in the future, through an international procedure rather than solely on the responsibility of the United States.

Although such deliberate creation of international reserves by multilateral action of nations would be something entirely new and uncharted, and the negotiations necessary to attain the objective may be difficult and lengthy, the way for it has been prepared in part by developing within the past five years a much higher degree of international monetary cooperation. This new network of cooperative monetary arrangements involves the extension of mutual credit facilities among national monetary authorities far beyond what had existed before.

Let us look at some of the new international arrangements for avoiding international monetary strains. You will note a great and reassuring difference from the situation in the 1930's, when a weakness here and a strain there were permitted to grow into a general rotting of the international monetary fabric.

For meeting short-term credit needs, the United States has taken the lead in developing a network of reciprocal swap facilities with other important financial centers, through the Federal Reserve System, that now has reached the impressive total of $2.8 billion.

Under these new arrangements, each country agrees to provide its currency to the other upon demand up to specified amounts. Swap operations move in both directions. For instance, the United States is sometimes a net borrower of foreign currencies and sometimes a net lender. Swaps are essentially designed to provide short-term financing facilities.

The Treasury has issued special nonmarketable securities to foreign monetary authorities and has joined with the Federal Reserve System in exchange market operations.

The medium-term credit facilities of the International Monetary Fund were reinforced in 1961-62 with $6 billion of support pledged by the major countries, and these resources have been invoked twice in the last year or two to deal with strains on the pound sterling.

Still and all, when we come to deliberate creation of new reserve assets, we are in terra incognita, in its way, perhaps as much of a departure from past monetary history as the development of space craft and nuclear power departs from tradition in the application of physical sciences. This is one way of stressing that difficult negotiations lie ahead.

Let me pause a moment to emphasize that the present monetary system is by no means decrepit, is not about to collapse, and that it has, indeed, shown itself, in the new credit arrangements we have just been discussing, to have a youthful vigor and openness to creative change that is, in itself, a hopeful indication that new changes can be made successfully. Throughout the postwar period, our Free World monetary system has supported an expansion of world production and world trade of unprecedented magnitude. This is a system that needs modification -- not replacement. As is true of any successful human institution -- be it a university, a government, an industry, or a monetary system -- adaptation to changing conditions is both evidence of its vitality and a condition for its survival.

In one vitally important aspect, however, the present international monetary system does threaten to lag behind the march of economic progress. The lag is in its ability to provide for adequate growth in the supply of international money to be held by national monetary authorities as reserves, if large dollar outflows are not to continue. Two elements must be corrected:

> First, the system must free itself from undue reliance upon the uncertain and unpredictable flow of newly mined gold into the hands of monetary authorities; and
>
> Second, the system must find some means of expansion in world reserves which does not depend upon continuing large balance of payments deficits of the reserve currency countries.

Let me give you a very few of the many facts and figures that lie behind these policy judgments.

Total reserves of the free world amount to the equivalent of nearly $70 billion. Of this amount, roughly $41 billion consists of gold, and $22 billion of official holdings of reserve currencies, of which the largest share is U. S. dollars. Over $5 billion consists of drawing rights on the International Monetary Fund, which countries can utilize virtually at will. Technically, these are called "gold tranche" or "super gold tranche" positions in the International Monetary Fund. These we have come to designate as "reserve positions in the Fund."

In the six-year period from the end of 1958 through the end of 1964, the total of Free World reserves, excluding those of the United States, increased by just over $17 billion. This was an average increase of nearly $3 billion per year. Our study of these data indicates that nearly three-quarters of this increase, or some $12.5 billion, can be traced to United States' financing of its very substantial balance of payments deficits in the period covered. The United States made net sales of gold to foreign countries of more than $5 billion during that six-year period, and our dollar liabilities to foreign monetary institutions -- or their dollar claims on us -- increased by more than $6 billion. Finally, our reserve position in the International Monetary Fund declined by more than $1 billion, with the result that the reserve positions of foreign countries increased by a comparable amount.

The rest of the increase in foreign reserves during the period appears to be made up of an additional $1.6 billion increase in reserve positions in the Fund and about $3 billion of newly available gold: including newly mined Free World gold and Russian gold sales.

The point I wish to emphasize is that new gold production, even including sales of gold by Russia, contributed, on the average, less than $500 million annually to the reserves of the Free World in these years. In the same period, various methods of financing the United States deficit supplied, on the average, over $2 billion a year to foreign reserves.

Our present estimate is that the U. S. balance of payments deficit in 1965 declined to about $1.3 billion. Our aim is to reach equilibrium in our balance of payments.

The small volume of new monetary gold supplies and the prospective disappearance of the United States deficit provided the background against which the Group of Ten major industrial countries -- Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States -- some two years ago began a careful examination of ways for improving the international monetary system. In 1964-65, a subgroup prepared a thorough technical study of ways of creating reserves. Last Fall, Secretary Fowler visited a number of the major capitals of Europe to inform his colleagues in Finance Ministries and central banks that the United States believed that, with the completion of the 1964-65 studies, it was now time to begin contingency planning in order to avoid a situation in which the growth of total reserves would be sharply curtailed by the end of the United States balance of payments deficit.

Last September, the Finance Ministers and central bank Governors of the Group of Ten accepted this view and instructed their Deputies to accelerate their work. They were asked to seek first a basis for agreement in this group of major financial powers, to be followed by a second stage of broader negotiations covering the interests of the world as a whole.

Determination of what is or what is not an adequate level of reserves for the world as a whole is one of the most difficult questions ahead of us, but difficulty in determining an adequate level of world reserves does not relieve us of the necessity of seeking such determination.

We know that most nations have a strong and understandable desire to increase the total of their reserves as their domestic economies expand and as their international trade and financial transactions increase. Recent indications of expectations of major industrial countries as to reserve trends showed a clear tendency on the part of most nations to anticipate that reserves would expand as trade and payments grew.

Where such an expectation is widely held, there is a real danger that a sharp cessation in the expansion of the over-all total of reserves might lead to a drift toward nationalistic policies that would restrict international trade and investment as each country tried individually and, probably for the most part unsuccessfully, to preserve a growing trend in its own reserves. If this were to occur, the difficulties might well become cumulative and a

competitive cycle could develop which would be most disruptive to economic growth and to international economic cooperation. It could damage the continuing expansion of world trade and disrupt the serious efforts of the developed nations of the world to assist in a meaningful way the economic development of the less developed countries.

The most direct use of reserves is, of course, to finance imbalances. But a "comfortable" level of reserves is desired whether or not a particular nation foresees a need to draw upon them. A large volume of reserves insures a country that it will be able to exercise a degree of independent judgment in determining its internal economic policies, if it should get into balance of payments difficulties. It means that the country could make the necessary international adjustments at a pace that would not entail extreme internal measures or stringent restrictions on external transactions. Adequate and growing reserves also improve the credit standing of the country, contribute to confidence in that country's currency, and add to its ability to obtain foreign loans when needed.

Over the years, partly for want of a better measure, most studies of the adequacy of reserves have measured reserves against total annual imports. Such studies have shown that individual countries have accepted -- or have been forced to live with -- varying ratios of reserves to imports. Clearly, the appropriate or indeed the optimum ratio for a particular country should take into account the regularity and dependability of the country's foreign income, the extent to which the country is heavily dependent upon foreign trade, the traditional level of its reserves in prosperous periods, the international use of its currency, and many other factors.

We shall look here at the over-all world picture, which shows a declining ratio of reserves to trade, implying a widespread reduction in individual country ratios.

According to a compilation covering countries for which complete data are available, the ratio of total reserves to the annual value of Free World imports stood, at the end of 1964, at 46 percent, as against 62 percent in 1958. For the Group of Ten countries, excluding the United States, the ratio fell from 42 percent to 36 percent,

even though this group of countries accounted for most of the $17 billion increase in world reserves which I mentioned earlier. For less developed countries, the ratio of reserves to total imports fell from 46 percent in 1958 to 39 percent at the end of 1964. The ratio for the United States moved from 154 percent to 84 percent during the same period.

The decline of the over-all ratio of reserves to trade does not reflect a decline in reserves. Rather, it reflects the rapid increase in world trade which has characterized most of the postwar period. The total of Free World imports, for example, was approximately $100 billion in 1958 and nearly $160 billion in 1964. During this period when trade increased by some 60 percent, world reserves -- to take a somewhat more inclusive view than provided by the countries cited above -- moved up by about 20 percent.

There is no suggestion either in the statistics or in the theoretical relationship of world trade and reserves that reserves must increase _pari passu_ with increases in trade. Trade is financed, in the first instance, in national currencies, and trade credits are extended, for the most part, by the private banking systems of the individual countries.

But these data certainly suggest that the increase of reserves has been anything but excessive relative to the growth of trade.

Reserves are used for settling imbalances which remain among countries after all of the earnings and expenditures arising from trade and capital transactions have been offset in the accounts of each country. The very fact that these trade and financial transactions have grown so rapidly suggests that the amount by which a country may find its payments and receipts failing to balance at any particular time is substantially larger in money terms than it would be at a lower level of transactions.

It is too early to get complete data for 1965 trade and reserve positions. Preliminary indications, however, are that the over-all ratio of reserves to trade declined somewhat further in that year. Free World imports appear to have increased by more than $10 billion, while the increase

in reserves was something just over $1 billion. In order to maintain the ratio of reserves to trade which existed at the end of 1964, the increase in world reserves would have been more than $4 billion, rather than $1 billion. And to restore the relationship between imports and reserves prevailing in 1960 for countries other than the United States would call for the addition of about $5-1/2 billion to the present level of their reserves.

I should note here, however, that reserves, or, more explicitly, "owned reserves," are not the only resource upon which a country can rely if it finds itself in balance of payments difficulties. International credit facilities also provide means of financing.

The last substantial institutional revision of the international monetary system occurred some 21 years ago, when the International Monetary Fund was established. That institution was founded in the desire to contribute to the expansion of world trade and the adoption of liberal trade policies by institutionalizing the availability of international credit.

Each member of the International Monetary Fund has a quota governing the amount that may be borrowed from the Fund in case of need and in accordance with well-understood criteria. The Fund is financed by its member countries, who pay in a percentage of their respective quotas (generally 25 percent) in gold and undertake to pay in the balance of their quotas in their own currencies, if these should be needed by the Fund.

Each country may draw, or borrow, its "gold tranche" contribution virtually on demand, simply on a showing that it requires additional international means of payment. As a country's drawings represent progressively larger portions of its total quota, the Fund demands increasing evidence that the drawing country is following economic policies appropriate to a return to balance of payments equilibrium. A country's Fund quota, accordingly, except for the "gold tranche" portion, is customarily not regarded as a part of that country's "owned" reserves, because the availability of the credit is conditional.

I should point out also that, when a country's currency is drawn by another country, the country whose currency is taken acquires an asset (or a reduction in its liabilities). Under certain conditions, it acquires a "super gold tranche," which can be drawn at will and without repayment obligations.

The United States has taken the position, in discussing improvements in the world monetary system, that it would be well to explore the possibilities of further improvement in credit facilities as an adjunct to the creation of some new form of international reserve asset. We have felt that owned reserves and credit facilities both have a significant role to play in a flexible and adaptable world monetary system.

All countries have a vital interest in the strength, resiliency, and liquidity of the world monetary system. All countries need adequate reserves and require access to credit facilities. Indeed, as indicated earlier, the developing countries, as a group, hold reserves which bear much the same relationship to their imports as is the case for the major industrial countries, excluding the United States.

There are also, however, differences between major industrial, intermediate industrial, and various groups of developing countries. Thus, it may well be that meeting the reserve and international credit needs of all countries will require more than one technique. Neither a new nor an evolutionary development necessarily need be restricted to a single technique or procedure.

The major industrial nations have had the primary responsibility for insuring that the international monetary system operates smoothly. They account for about 70 percent of the world's total reserves. Their currencies are the ones usually drawn upon when the Fund extends credits, and their real resources are transferred when these credits are utilized. They are exposed at times to disequilibrating capital flows. The Group of Ten countries found it desirable in 1961-62 to take joint action to "forestall or cope with" any threatened impairment of the international monetary system. They did this by pledging loans up to $6 billion, on which the Fund might call for this purpose.

In the International Monetary Fund, there has been recognition of some of the special monetary needs of the developing countries, in the form of assistance when the incomes of these countries, derived from a limited range of exports, have fluctuated through no fault of their own. Special facilities, known as "compensatory financing arrangements," have facilitated drawings on the Fund to ease these problems.

Thus, there are both world-wide interests and needs, and special interests, needs and responsibilities, in regard to the international monetary system. That is the reason negotiations looking toward modification of the system are proceeding as they are. Currently, the initial negotiations are going forward in the Group of Ten nations. They have worked closely together for some years in international monetary cooperation. For the past two years, they have studied extensively the general and technical aspects of new reserve creation. They, I believe, recognize that improvements in the monetary system should take account of the interests of the world as a whole, including both industrial and developing countries.

But, as noted, following a broad basis for agreement within the Group of Ten, further negotiations will take place with the interests of the rest of the members of the International Monetary Fund being directly represented.

At the meeting of the Deputies of the Group of Ten at the end of January, the United States put forward in outline form a proposal for assuring adequate future world liquidity. This proposal involves a dual approach, using two different techniques -- a special drawing right in the International Monetary Fund and an entirely new reserve asset in the form of an international reserve unit.

The proposed new drawing rights in the Fund would be in addition, but broadly similar, to those existing drawing rights that are available virtually on demand and that, therefore, have come to be regarded as "reserve positions" in the Fund. The new element involved in the proposal is that new drawing rights could be established in the Fund without a payment of gold to the Fund. Instead, the country acquiring the new drawing right would make an amount of its currency available to the Fund.

A member country could use its special drawing right on a declaration that it had a present need. This proposal is based on the expectation that all members of the Fund would treat these claims on the Fund as reserves and would restore their positions in accordance with the policies applied by the Fund to "reserve positions" in the Fund.

On the basis of experience with the present reserve positions in the Fund, many countries would not make persistent use of these drawing rights. Countries might well prefer to retain these special drawing rights as reserves while using, if necessary, their normal credit tranches in the Fund, in accordance with existing Fund rules and regulations.

By using the Fund mechanism in this way, the nations of the world would be using a familiar institution and a familiar mechanism. All members of the Fund would be included -- the less developed countries as well as the industrialized nations. The experience of the Fund in the management of drawings would be applied to these new drawing rights, but the primary emphasis would be on their character as reserves rather than as credit availabilities.

Special drawing rights would, of course, need to be backed by cash subscriptions or lines of credit opened in favor of the Fund by all member countries, which could be utilized when the drawing rights were used. In practice, experience has demonstrated that the currencies needed by the Fund members have usually been those of the more highly industrialized countries. It follows that these countries would be called upon to give meaningful and effective support to any system for special drawing rights in the Fund.

In addition to suggesting the development of special drawing rights, which would be closely tied into the operations of a familiar technique, the United States has also proposed creation of a completely new reserve asset. Such an asset is of the general family frequently referred to as a "CRU," since the initials have been used as shorthand for "collective reserve unit" or "composite reserve unit." These phrases are, indeed, descriptive of the type of asset which we have in mind, though it would not embody all the elements sometimes associated with that terminology.

To develop a new reserve asset would be a unique undertaking in the international sphere. The proposal is that a group of major industrial countries should contribute their own currencies, which would be held in a common pool by a trustee. The unit would be, in effect, a composite obligation of these countries. Against these national currency

contributions, an equal value of new reserve units would be issued to the members of the group. Each member would receive units equal in value to its own contribution in national currency. The new unit would then be included in the country's reserve totals.

Under this proposal, the reserve unit would have full backing in national currencies. In addition, it would benefit from a firm agreement by the members of the group to accept units offered by another member. While not participating directly in the distribution, management, and responsibility for these reserve units, the interests of other members of the Fund could be taken into account, in an appropriate way, and they would derive benefit from the creation of new reserve units.

I have said that this would be a unique undertaking in international affairs, and so it would. For the first time, leading nations would be establishing machinery for the express purpose of creating a reserve asset which would rest upon the credit of a number of countries and would be accepted by their monetary authorities. The new asset, nevertheless, would fit into the long sweep of international monetary development. A country which is holding dollars or pounds sterling or francs in its international reserves is, in fact, holding the obligation of the United States or the United Kingdom or France. The new reserve unit would represent the obligation of a group of strong countries banded together, and instruments representing fractional parts of this composite obligation would be freely exchanged among the monetary authorities of members of the group.

The most important attribute which a new reserve unit would have -- and which no existing reserve asset possesses -- is that its creation would be determined by conscious decision of international representatives looking at the needs of the world for reserves. It would not depend either upon the uncertain and limited supply of new gold produced from year to year nor upon the balance of payments position of reserve currency countries.

United States agreement on creation of a new asset rests on understanding that the asset would supplement existing reserve assets -- gold and reserve currencies.

There would be little point in creating a new asset if it were to be used to substitute for present reserves. It is, in other words, designed to be a separate reserve asset with attributes somewhere between gold and reserve currencies, rather than an alternative form of either. When a reserve currency country is called upon to convert its currency into gold, the total of world reserves declines by an equal amount. This is because the gold moves from the reserves of one country into those of another -- the total value of gold reserves remaining unchanged. The reserve currency taken in exchange for the gold by the reserve currency country, however, ceases to be an international reserve asset. An international liability and an international asset are simultaneously extinguished. And world liquidity in the form of reserves is reduced. This is not the objective we have in mind. And I am sure it is not the objective of our colleagues in the Group of Ten.

The procedures governing the acceptance of reserve units by its sponsoring members is one of the important questions related to this objective and on which different points of view have been taken.

We believe any new international reserve unit should stand on its own feet. Some versions of the CRU call for a combination of gold and units in international settlements. Our view is that countries entering into the creation and management of a reserve unit will be motivated by a constructive desire to make the new system work, and this interest is the basic reliance for assuring acceptability.

There are many aspects of this subject that I have not attempted to touch upon. The United States proposal does not stand alone in the Group of Ten. Other countries have put forward proposals or ideas of their own which differ in various respects from those put forward by the United States. We prefer at this stage to speak of proposals, rather than plans, for many aspects remain flexible and the give and take of negotiations will be required before the Deputies of the Group of Ten can, in the terms of their most recent mandate, "determine and report to Ministers what basis of agreement can be reached on improvements needed in the international monetary system."

The Deputies have been asked to report to Ministers this Spring. I hope that report will reflect a measure of agreement among the highly industrialized countries that we believe must be reached as a prerequisite for discussions in a broader context, where the views of other countries will be examined. I cannot close more appropriately than by quoting President Johnson in his Economic Report to the Congress this year, when he said:

> "I hope that the major industrial nations -- and then the entire community of free nations -- will reach an agreement that will make creation of new reserve assets a deliberate decision of the community of nations to serve the economic welfare of all."

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TREASURY DEPARTMENT

WASHINGTON, D.C.

February 16, 1966

ADVANCE FOR 12:00 NOON, EST TODAY
WEDNESDAY, FEBRUARY 16, 1966

NEW SAVINGS BONDS INTEREST RATE

President Johnson today announced an increase in the interest rate on United States Savings Bonds. New bonds will earn at the rate of 4.15% instead of the previous 3.75%. Future rates of earning on outstanding bonds are also being increased.

Attached is a letter to the President from Secretary Fowler recommending the new program and a summary sheet detailing the new bond offerings directed to all the Federal Reserve Banks and other issuing and paying agents who transact U. S. Savings Bonds business with the public. A printed circular will later be distributed. Also attached are tables showing redemption values and investment yields for Series E and H Bonds issued beginning December 1, 1965. All Savings Bonds purchased since December 1, 1965, will earn at the new rate of 4.15% to maturity.

In addition to the issuance of new Series E and H Savings Bonds at an interest rate above the previous rate, the Presidential action raised the earnings after December 1, 1965, of outstanding E and H Savings Bonds.

oOo

Attachments

F-381

THE SECRETARY OF THE TREASURY
WASHINGTON

Dear Mr. President:

In your letter of January 18, 1966, you directed me to recommend as soon as possible a higher interest rate on United States Savings Bonds, in order to sustain and enlarge the vital role of this program.

You stated in your letter that a rate increase at this time would serve important national purposes. This conclusion, meeting the requirements of the Act of September 22, 1959, which amended the Second Liberty Bond Act, is clearly justified not only in view of the higher rates now available on various private savings accounts, but also in light of current needs to sustain vigorous non-inflationary growth and manage our public debt soundly. Above all, such a move is in our national interest now, so that a healthy economy at home provides maximum support to our efforts on behalf of defending freedom in Viet Nam. With these facts in mind, I recommend the following:

(1) that all Series E and H bonds sold beginning December 1965 earn 4.15% per annum compounded semiannually, if held to maturity, with yields for shorter periods of holding also increased from current levels;

(2) that all outstanding Series E and H bonds sold before December 1965 earn 4/10 of 1% more than before to next maturity, starting with the interest period of five months or more which begins on or after December 1, 1965, with lesser improved yields for shorter periods of holding;

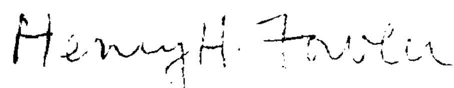
(3) that Series E bonds with issue dates of April 1956 through April 1957 (which had not reached maturity before December 1965) on which a 3.75% ten-year extension had already been promised and those with issue dates of May 1957 through May 1959 on which a ten-year extension had been promised earn interest at an annual rate of about 4.15% for each half-year period of holding to extended maturity;

(4) that matured Series E bonds with issue dates of December 1945 through May 1949 (which had not reached first extended maturity before December 1965) on which a 3.75% second ten-year extension had already been promised earn interest at an annual rate of about 4.15% for each half-year period of holding to second extended maturity; and

(5) that unmatured Series H bonds with issue dates of April 1956 through January 1957 (which had not reached maturity before December 1965) on which a 3.75% ten-year extension had already been promised earn interest at an annual rate of about 4.15% for each half-year period of holding to extended maturity.

Your approval of the above recommendations will enable the Treasury to issue the necessary regulations and put them into effect.

Faithfully yours,



Henry H. Fowler

The President

The White House

SUMMARY

Improvements in Series E and H Savings Bonds, Effective December 1, 1965

1. New Series E and H bonds with issue dates of December 1, 1965 and after -- earn 4.15% compounded semiannually, if held to maturity (instead of former 3.75%). On the accrual type E bonds the increase from 3.75% to 4.15% is accomplished by reducing the term of the bond to 7 years (instead of former 7 years and 9 months). The purchase price of E bonds will continue to be 75 percent of face value. On the current income H bond the increase is accomplished by raising the amounts of the semiannual interest checks. The H bond is issued at par, is redeemable at par (on one month's notice after six months' holding), and matures at par at the end of 10 years.

a) There are also improved redemption values and investment yields if the new E bonds are held for less than the 7 years to maturity. Some examples are:

When held for:	Redemption value per $100 bond	Yield for: Period held	Yield for: Period remaining to maturity
1 year	$77.28	3.02%	4.34%
2 years	80.40	3.51	4.41
3 years	83.84	3.75	4.46
5 years	91.44	4.00	4.52

b) As before, interim yields on the new H bonds are generally in line with the new E's for equal periods of holding. Interest checks after the first two will be level providing 4.3% current income after the first year of holding.

Outstanding E and H bonds purchased before December 1, 1965 -- earn 4/10 of
% more than before for the remaining period to next maturity. There will be
esser improvement in yields if bonds are redeemed earlier. The increase will
e on a graduated scale, starting with the first interest period of 5 months or
ore which begins on or after December 1, 1965. There is no retroactive increase
n interest rates for periods prior to December 1, 1965.

}. Interest rates on bonds entering a new extension period beginning December 1,
965:

a) Unmatured E bonds:

1) Issued April 1956 through April 1957 (which had not reached maturity before December 1, 1965) on which a 3-3/4% 10-year extension had already been promised and those issued May 1957 through May 1959 on which a 10-year extension had been promised, will earn interest at an annual rate of about 4.15% for each half year period of holding to extended maturity.

2) Issued beginning with June 1959 have already been promised a 10-year extension privilege. Interest rates and other terms and conditions will be determined as they approach maturity.

b) Matured E bonds, issued December 1945 through May 1949 (which had not reached first extended maturity before December 1, 1965) on which a 3-3/4% second 10-year extension had already been promised will now earn interest at an annual rate of about 4.15% for each half year period of holding to second extended maturity.

c) Unmatured H bonds, issued April 1956 through January 1957 (which had not reached maturity before December 1, 1965) on which a 3-3/4% 10-year extension had already been promised will earn interest at an annual rate of about 4.15% for each half year period of holding to extended maturity.

UNITED STATES SAVINGS BONDS - SERIES E
TABLE OF REDEMPTION VALUES AND INVESTMENT YIELDS
FOR BONDS BEARING ISSUE DATES BEGINNING DECEMBER 1, 1965

Table showing: (1) How bonds of Series E bearing issue dates beginning December 1, 1965, by denominations, increase in redemption value during successive half-year periods following issue; (2) the approximate investment yield on the purchase price from issue date to the beginning of each half-year period; and (3) the approximate investment yield on the current redemption value from the beginning of each half-year period to maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

Maturity Value....	$25.00	$50.00	$75.00	$100.00	$200.00	$500.00	$1,000.00	$10,000	Approximate Investment Yield	
Issue Price.......	18.75	37.50	56.25	75.00	150.00	375.00	750.00	7,500	(2) On purchase price from issue date to beginning of each half-year period	(3) On current redemption value from beginning of each half-year period to maturity
Period after issue date	(1) Redemption values during each half-year period (Values increase on first day of period shown)									
									Percent	Percent
First 1/2 year.....	$18.75	$37.50	$56.25	$ 75.00	$150.00	$375.00	$ 750.00	$ 7,500	0.00	4.15 *
1/2 to 1 year......	18.96	37.92	56.88	75.84	151.68	379.20	758.40	7,584	2.24	4.30
1 to 1-1/2 years...	19.32	38.64	57.96	77.28	154.56	386.40	772.80	7,728	3.02	4.34
1-1/2 to 2 years...	19.70	39.40	59.10	78.80	157.60	394.00	788.00	7,880	3.32	4.38
2 to 2-1/2 years...	20.10	40.20	60.30	80.40	160.80	402.00	804.00	8,040	3.51	4.41
2-1/2 to 3 years...	20.52	41.04	61.56	82.08	164.16	410.40	820.80	8,208	3.64	4.44
3 to 3-1/2 years...	20.96	41.92	62.88	83.84	167.68	419.20	838.40	8,384	3.75	4.46
3-1/2 to 4 years...	21.42	42.84	64.26	85.68	171.36	428.40	856.80	8,568	3.84	4.46
4 to 4-1/2 years...	21.89	43.78	65.67	87.56	175.12	437.80	875.60	8,756	3.91	4.48
4-1/2 to 5 years...	22.37	44.74	67.11	89.48	178.96	447.40	894.80	8,948	3.96	4.50
5 to 5-1/2 years...	22.86	45.72	68.58	91.44	182.88	457.20	914.40	9,144	4.00	4.52
5-1/2 to 6 years...	23.36	46.72	70.08	93.44	186.88	467.20	934.40	9,344	4.04	4.57
6 to 6-1/2 years...	23.88	47.76	71.64	95.52	191.04	477.60	955.20	9,552	4.07	4.64
6-1/2 to 7 years...	24.42	48.84	73.26	97.68	195.36	488.40	976.80	9,768	4.11	4.75
MATURITY VALUE (7 years from issue date)....	$25.00	$50.00	$75.00	$100.00	$200.00	$500.00	$1,000.00	$10,000	4.15	----

* Approximate investment yield for entire period from issuance to maturity.

UNITED STATES SAVINGS BONDS - SERIES H
TABLE OF CHECKS ISSUED AND INVESTMENT YIELDS
FOR BONDS BEARING ISSUE DATES BEGINNING DECEMBER 1, 1965

Table showing: (1) Amount of interest checks paid on United States Savings Bonds of Series H bearing issue dates beginning December 1, 1965, by denominations, on each interest payment date following issue; (2) the approximate investment yield on the face value from issue date to each interest payment date; and (3) the approximate investment yield on the face value from each interest payment date to maturity. Yields are expressed in terms of rate percent per annum, compounded semiannually.

Face Value (Maturity Value	$500	$1,000	$5,000	$10,000	Approximate Investment Yield on Face Value	
Face Value (Redemption Value 1/	500	1,000	5,000	10,000		
Face Value (Issue Price	500	1,000	5,000	10,000	(2) From issue date to each interest payment date	(3) From each interest payment date to maturity 2/
Period of time bond is held after issue date	(1) Amount of interest check for each denomination				Percent	Percent
1/2 year	$ 5.50	$11.00	$ 55.00	$110.00	2.20	4.27
1 year	9.70	19.40	97.00	194.00	3.03	4.30
1-1/2 years	10.75	21.50	107.50	215.00	3.45	4.30
2 years	10.75	21.50	107.50	215.00	3.65	4.30
2-1/2 years	10.75	21.50	107.50	215.00	3.78	4.30
3 years	10.75	21.50	107.50	215.00	3.86	4.30
3-1/2 years	10.75	21.50	107.50	215.00	3.92	4.30
4 years	10.75	21.50	107.50	215.00	3.96	4.30
4-1/2 years	10.75	21.50	107.50	215.00	4.00	4.30
5 years	10.75	21.50	107.50	215.00	4.03	4.30
5-1/2 years	10.75	21.50	107.50	215.00	4.05	4.30
6 years	10.75	21.50	107.50	215.00	4.07	4.30
6-1/2 years	10.75	21.50	107.50	215.00	4.08	4.30
7 years	10.75	21.50	107.50	215.00	4.10	4.30
7-1/2 years	10.75	21.50	107.50	215.00	4.11	4.30
8 years	10.75	21.50	107.50	215.00	4.12	4.30
8-1/2 years	10.75	21.50	107.50	215.00	4.13	4.30
9 years	10.75	21.50	107.50	215.00	4.13	4.30
9-1/2 years	10.75	21.50	107.50	215.00	4.14	4.30
10 years (maturity)	10.75	21.50	107.50	215.00	4.15	----

1/ At all times, except that bond is not redeemable during first 6 months.

2/ Approximate investment yield for entire period from issuance to maturity is 4.15 percent per annum.

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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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 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 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 tenders 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 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 Federal Reserve Bank on February 24, 1966, in cash or other immediately available fu or in a like face amount of Treasury bills maturing February 24, 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.

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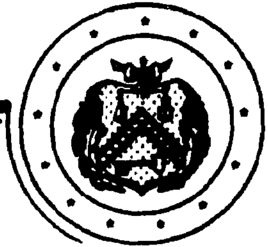
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 16, 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 February 24, 1966, in the amount of $2,200,856,000, as follows:

91-day bills (to maturity date) to be issued February 24, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated November 26, 1965, and to mature May 26, 1966, originally issued in the amount of $1,001,322,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated February 24, 1966, and to mature August 25, 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, February 21, 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.

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TREASURY DEPARTMENT
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FOR IMMEDIATE RELEASE, February 16, 19[illegible]

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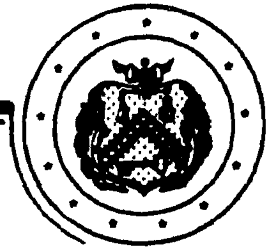
TREASURY DEPARTMENT



WASHINGTON, D.C.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, February 16, 1966

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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.

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

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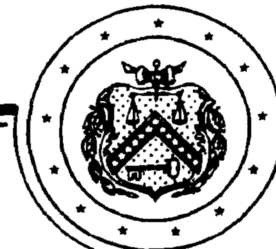
TREASURY DEPARTMENT



WASHINGTON, D.C.

February 16, 1966

)R IMMEDIATE RELEASE

TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders r $1,000,000,000, or thereabouts, of 365-day Treasury bills, for cash d in exchange for Treasruy bills maturing February 28, 1966, in the ount of $1,000,705,000, to be issued on a discount basis under com- titive and noncompetitive bidding as hereinafter provided. The bills this series will be dated February 28, 1966, and will mature bruary 28, 1967, when the face amount will be payable without interest. ey will be issued in bearer form only, and in denominations of $1,000, ,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity lue).

Tenders will be received at Federal Reserve Banks and Branches up - the closing hour, one-thirty p.m., Eastern Standard time, Wednesday, bruary 23, 1966. Tenders will not be received at the Treasury Depart- nt, Washington. Each tender must be for an even multiple of $1,000, d in the case of competitive tenders the price offered must be ex- essed on the basis of 100, with not more than three decimals, e.g., .925. Fractions may not be used. (Notwithstanding the fact that ese bills will run for 365 days, the discount rate will be computed a bank discount basis of 360 days, as is currently the practice on l issues of Treasury bills.) It is urged that tenders be made on the inted forms and forwarded in the special envelopes which will be pplied by Federal Reserve Banks or Branches on application therefor.

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, February 16, 1966
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TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $ 1,000,000,000 (XX), or thereabouts, of 365 (XX) -day Treasury bills, for cash and in exchange for Treasury bills maturing February 28, 1966 (XX), in the amou of $ 1,000,705,000 ($), to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will b dated February 28, 1966 (XX), and will mature February 28, 1967 (XX), when the face amount will be payable without interest. They will be issued in beare form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

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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 Treasu 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, o by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United Stat 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 exclude from consideration as capital assets. Accordingly, the owner of Treasu bills (other than life insurance companies) issued hereunder need inclu in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and th 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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over prices and wages."

In one area, certainly, we can join forces very effectively in pursuit of responsible restraint -- and that area is our Savings Bond program, where we are now ready to move ahead at full steam, our efforts invigorated by the new higher rate just announced. This change is timely, I'm sure you will all agree, not only to sustain the strength of the Savings Bond program and thus further relieve the financing demands that we make on the market, but also to be fair to the millions of small savers who make up the bulk of the purchasers of Savings Bonds. Above all, the change is timely in light of the need to encourage greater savings, and thus give maximum support to our high national purposes.

In this 25th Anniversary Year campaign, I know that we can count on the full support of all of you to keep our economic ship on a steady keel. In leading the industrial payroll savings campaign in this key area of the country, you are performing a service of extraordinary value, and I know that it will be well done.

For further improvement this year we look particularly to the trade sector, where certain adverse factors last year should not be operative in 1966, to a reduction in direct investment outflows in line with the more restrictive guidelines set last December, and to continuing increases in our investment income as a result of past investments abroad.

Certainly in the trade area, success will depend in good measure on how well we can contain price and cost pressures at home, both to maintain the competitive position of our exports and to ensure that domestic products are available in competition with the growing volume of imports.

Conclusion

As you can see, this brief excursion into the international payments area soon brings us back, full circle, to the domestic economy and to the high-priority need for charting a course of noninflationary growth at home.

This is a matter that embraces every area of economic decision-making, both in and out of government. For as the President observed in his Economic Message, "...the extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power

On the other side, a part of these large gains was offset, particularly because our favorable trade balance shrank by nearly $1.9 billion as imports rose considerably more than exports. Direct investment outflows also increased for the year as a whole, although there was a marked improvement after mid-year, when the voluntary program in this area began to take hold.

For this year, 1966, our goal is to close the payments gap the rest of the way. This might seem an easy task, after having succeeded in cutting the deficit back by better than 50% from 1964 to 1965, but we do not regard the job with any complacency. We recognize, for example, that some of last year's gain, such as the repatriation of corporate short-term balances, was one-shot in nature and we could not look to a repeat performance. Nor can we reasonably expect the banking sector to show another improvement of $2-1/2 billion, although we certainly expect the voluntary program to check any re-emergence of a sharp <u>outflow</u> of bank funds. In addition, we may experience some greater outflow on account of the balance of payments impact of our military and aid programs in Southeast Asia.

Balance of Payments Progress

Before concluding these remarks a few words should be said about our balance of international payments, for in this area, too, policies aimed at price and cost stability, and noninflationary growth, are essential to achieving national objectives.

Last year, the United States made decisive progress toward achieving a balanced payments position. Our deficit on the over all, or liquidity, accounting basis was cut more than 50% from the level of recent years to just $1.3 billion in the calendar year 1965.

In large measure the improvement last year is traceable to the program of voluntary restraint called for by the President just a little over a year ago -- in his Balance of Payments Message of February 10, 1965. Most impressively, instead of an outflow of long- and short-term bank credit which reached the high level of $2.5 billion in 1964, there was a small inflow to the banks in 1965. And, similarly, in the area of nonbank capital flows (excluding direct investment abroad) we shifted from a net outflow of some $900 million in 1964 to an inflow of perhaps $300 million in 1965. Much of this swing reflected the repatriation of short-term corporate funds, also under the guidance of the voluntary program.

Thus even when the debt manager is in the fortunate position of looking forward to a reduced need for placing debt in the hands of the public, he can still feel some qualms about the large volume of marketable debt that comes due each week in the case of Treasury bills, or in each quarterly refunding in the case of coupon-bearing issues. It is at such times that the debt manager can contemplate with particular pleasure the $49 billion of publicly held debt that is in the form of U. S. Savings Bonds.

It is no small comfort to recall that fully 23% of the publicly held Treasury debt is in the form of Savings Bonds, and that this proportion has tended to grow over the years. Some twenty years ago, shortly after the end of World War II, Savings Bonds comprised about 15% of the publicly held debt. In the intervening two decades, the value of Savings Bonds outstanding has grown by about $19 billion, while the amount of other Treasury debt in the hands of the public has declined by some $6 billion. Little wonder, then, that we are concerned about sustaining and improving the Savings Bond program as an aid to debt management as well as in the broad context of economic stabilization.

greater decline than in the current fiscal year in the volume of Treasury debt in the hands of the public. Indeed, even after allowing for the increased sale of Federal financial assets both this fiscal year and next -- sales that have been gradually expanded ~~starting under the Eisenhower Administration,~~ under a program that has received increasing emphasis since the mid 1950's in order to develop increased private participation in Federal credit programs -- the Federal Government's net financing demand on the private economy will be minimal. And in fiscal 1967 the credit market role of Government, including in this the Federal Reserve System, would actually work out to be one of supplying funds to the private economy.

Let me hasten to add that all of this does not leave the debt manager with as easy a task as one might suppose. For we must, this year and probably next fiscal year, too, meet very keen competition for loanable funds from the private sector. It is this kind of competition that has moved interest rates into new high ground for recent years, even while the Treasury's own credit demands have remained on the moderate side. To cite just one area, bank loans were up some $24 billion or 15% last year, with loans to business showing a particularly steep rise.

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Apart from the May refunding, and the routine roll-over of maturing weekly and monthly Treasury bills, there is only a modest amount of additional cash to be raised -- perhaps half a billion dollars -- before our coffers begin to fill up with the usual seasonal inflow of heavy tax receipts in the April-June quarter. Moreover, mainly because of the steady increases in holdings of Treasury debt by the various Government investment accounts (such as the Social Security trust fund) and by the Federal Reserve Banks, there will be, by June 30, a considerable reduction from a year previous in the volume of Treasury debt in the hands of the public. Commercial bank holdings, in particular, will show a sizable decline over the year.

During fiscal 1967, assuming passage of the proposed program of tax acceleration measures, there should be an even

$1.8 billion, and to produce a small surplus on a cash basis. Beyond this, the President has stated quite clearly in his Economic Message: "If it should turn out that additional insurance /_against inflation_/ is needed, then I am convinced that we should levy higher taxes rather than accept inflation -- which is the most unjust and capricious form of taxation."

The Savings Bond program is ideally suited to playing a key part in our efforts to maintain price stability. This is noninflationary financing par excellence, comprising a feature of our economic system that is the envy of many other countries. For savings dollars, particularly those generated in the payroll savings program, are quite directly set aside out of the income stream and diverted from immediate spending.

Role of Debt Management

More generally, our debt management job in the current period is also being shaped to the over-all need for a less stimulative set of financial policies. It may be helpful, in assessing the role of debt management, to take stock briefly of where we are now and where we may be heading in the months to come.

For the current fiscal year -- the year that will end this June 30 -- we are now quite clearly "over the hump" as

preferring economic well-being to conditions of recession and unemployment. General prosperity is a key element to the solution of many of the social problems to which we are now awakening, and which demand our utmost efforts and imagination.

This new challenge of prosperity calls for a coordinated mix of flexible and responsive policies. As the President said in his Budget Message, "Inflation need not be the price of social progress; nor should it be a cost of defending freedom."

In line with the need for a changed fiscal approach, the President has proposed, and the Congress is now considering, certain measures to put corporate and individual income taxes on a more nearly current basis. That is, ultimate tax liabilities would not change but payments would be made more closely in line with the actual earning of income and accrual of the tax liability. The President has also proposed restoring the levels of the automobile purchase and telephone service excise taxes to those prevailing before a reduction took place this past January -- thus, in effect, delaying that scheduled reduction for two years.

Taken together, these revenue measures would bring in an additional $2.9 billion during calendar year 1966, and during fiscal year 1967 the added revenue would be $4.8 billion -- enough to bring the fiscal 1967 budget deficit down to a modest

was slightly more than the average increase of 1.3 per cent in other recent years. Largely because of higher food costs, wholesale prices at the end of 1965 were 3.4 per cent higher than a year earlier, compared with virtual stability from 1958 to early 1965.

I am not going to gloss over these unwelcome price rises -- moderate as they were in comparison to the recent performance of prices in other countries of the world and our own experience during the 1950's.

Complacency toward even mild increases in costs and prices can easily become an open invitation to more persistent and larger increases which could endanger continued economic expansion at home and defeat the substantial progress we have already made toward achieving equilibrium in our balance of payments.

I, for one, however, welcome the new challenge -- to maintain continued solid economic growth within a framework of stable costs and prices -- because this new challenge means that we have overcome the problems of wide scale underemployment and slow growth toward which our effects of the past five years have been directed. And I might add, I welcome this challenge not only from the viewpoint of

Today, our position is quite different, calling for a different policy emphasis. The economy is moving in high gear, with unemployment reduced to 4 per cent in January and further improvements in sight. Some 2-1/2 million Americans have been added to payrolls in the past year, and personal income had risen, by the closing months of 1965 to an annual rate of $546 billion -- up nearly 8% from a year earlier.

Indeed, throughout the past year, well before the enlarged military effort in defense of freedom in Viet Nam was superimposed on the economy, we had a very solid upswing, based on robust business and consumer demands. The record-breaking performance of the economy was daily demonstrating the logic of the reductions in tax rates and the other measures taken during the last few years to relieve the economy from an excessive burden of taxation, promote a fuller employment of our resources, and to give freer rein to private energy and initiative.

But as we have approached more closely a full utilization of our labor force and productive capacity, upward pressures on costs and prices have increased, and some scattered cracks have begun to appear in the over-all excellent record of cost and price stability that has characterized the current economic expansion. In 1965, consumer prices rose 1.7 per cent, which

The opportunities for expanding this program are greater now ever before. With our economy beginning its sixth year of broadly based expansion, more Americans are employed than ever before in our history, and they are working for higher wages and salaries. Each day many more Americans are reaching a threshold of financial well-being where they are ready to take part in a program of systematic savings.

These new workers, and better-off workers should also be new savers, participating in a program in which both they and their country are the beneficiaries. Many of the new workers are younger people, some of them perhaps not so cognizant of the vast contributions Savings Bonds have made to our country's security and stabili through the years. This is an area of particular opportunity to enlist added support.

Cost-price Stability Essential

We have, today, a particularly vital need to strengthen our economy by encouraging Savings Bonds purchases.

During the earlier years of this decade it was appropriate for the Federal Government's fiscal posture to be one of stimulating economic growth and fuller employment of resources. In early 1961, unemployment was 7 per cent of our civilian labor force, and for some groups such as teenagers and nonwhites the rates were much higher.

industry throughout the country have exceeded one million each year. One of the most notable successes is visible right here in one of your own area organizations where more than 190,000 new savers were signed up during the three-year period.

In addition to the new savers that have been added year after year all across the Nation, many thousands of employees already participating in the program have increased the amount of their systematic savings.

The net result is that payroll savings now account for approximately 60 per cent of all E Bond sales. Last year, smalle denomination E Bonds -- the type normally purchased by payroll savers -- reached a peacetime high of more than $3 billion. This makes the payroll savings plan not only the backbone of the bond program, but the key ingredient of a vital thrift program for millions of American citizens.

Today, in this Silver Anniversary year of the Savings Bond program more than $49 billion of Series E and H Savings Bonds is outstanding. This represents a tremendous reservoir of person financial security for millions of Americans. It is a major fact in our economic life. We seldom stop to think that a good many of these dollars probably would not have been saved if not for th payroll savings plan through which so many Americans have system cally amassed security for themselves and their families.

A. P. Fontaine, Chairman and Chief Executive Officer of the Bendix Corporation, who is serving as a member of the Committee this year in charge of the payroll savings campaign in the Detroit area.

In the past years, we have also had the valuable support, as members of the Committee, of Mr. Ray Eppert of the Burroughs Corporation and Mr. John Gordon of General Motors.

We also appreciate the fine support we have received from such organizations as General Motors, Chrysler Corporation, U.S. Rubber, Bendix Corporation, Kelsey-Hayes Company and many other companies in the Detroit area which, as a result of the interest on the part of their management at every level, have attained outstanding participation in the payroll savings program.

These leaders of industry in Michigan have given selflessly of their time, their energy and their money to help make the Savings Bond program the tremendous success it has been here. Many of your leaders have worked on an industry-wide basis to contribute even more to the national success of the Savings Bond program.

The measure of accomplishment achieved by the Committee is reflected in the fact that, during the three years the group has been functioning, new enrollments of payroll savers in

TREASURY DEPARTMENT
Washington

OR RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
BEFORE THE
DETROIT TOP MANAGEMENT MEETING
DETROIT, MICHIGAN, FEBRUARY 17, 1966
12:15 P.M., EST.

It gives me great pleasure indeed to meet with you today and help launch your Payroll Savings Bond Campaign in the Detroit area. During World War II, and throughout the postwar years, payroll savings have been the bulwark of the Savings Bond program. In this Silver Anniversary year of the Savings Bond program, we look forward to a stronger-than-ever payroll savings campaign. We have, this year, a very great deal going for us. This is going to be a banner year.

The hallmark of the industrial payroll savings program over the years has been the solid support of American industry. Thus, it is only fitting that you receive the much-deserved thanks of this Nation for the very substantial contribution you have made to the financial stability of the country.

Congratulations go out also to two of your distinguished business leaders -- Mr. Lynn A. Townsend, President of the Chrysler Corporation, who is now serving with distinction as Chariman of the Treasury's Industrial Payroll Savings Committee, and to Mr. A. P. Fontaine, Chairman and Chief Executive Officer of the Bendix Corporation, who is serving as a member of the Committee this year in charge of the payroll savings campaign in the Detroit area.

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Conclusion

As you can see, this brief excursion into the international payments area soon brings us back, full circle, to the domestic economy and to the high-priority need for charting a course of noninflationary growth at home.

This is a matter that embraces every area of economic decision-making, both in and out of government. For as the President observed in his Economic Message, "...the extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over prices and wages."

TREASURY DEPARTMENT
Washington

FOR RELEASE P.M. NEWSPAPERS
THURSDAY, FEBRUARY 17, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE A FINANCIAL CONFERENCE OF
THE NATIONAL INDUSTRIAL CONFERENCE BOARD
AT THE
WALDORF-ASTORIA HOTEL, NEW YORK, NEW YORK
THURSDAY, FEBRUARY 17, 1966, 12:30 P.M., EST

In less than two weeks, our economy will enter its sixth year of uninterrupted expansion -- an expansion without rival in our history for its overall stability and strength, for its buoyancy and its balance.

In the broadest sense, our economic objective today is -- and must be -- the same as it was one year or three years -- yes, even five years ago: to sustain the expansion. But sustaining the expansion today means that, although our objectives are the same, the means chosen to further them today may be different from those employed five years ago, three years ago, or even a year ago -- for circumstances have changed and our policies must, and do reflect that change.

Today our work force, more productive than ever, is also more fully employed than at any time in nearly a decade. Our productive capacity -- larger and more efficient than ever -- is also more nearly fully utilized than at any time since the Korean War. In addition to the growing private and public demands of our citizens for more of the fruits of our highly productive economy, our firm commitment to the defense of freedom in Vietnam has entailed essential new claims upon our economic capacity and resources.

In these circumstances the task of sustaining our expansion requires new diligence in the avoidance of both old and new dangers. The old danger -- always with us for a variety of reasons -- is the loss of price stability which could lead to inflation. The new danger, a contributing factor to the old, is the danger no longer of deficient, but of excessive, economic demand as it relates to available supply. We have thus pointed our economic policy mix in a new direction -- away from stimulus and toward restraint.

Our current programs and our recent actions -- actions on the government pay raise in August, the steel settlement in September, and the aluminum, copper and steel price situations this past Fall, as well as the current budget -- have abundantly demonstrated our determination to forestall any onslaught of inflation.

Yet there are those who feel we have not gone far enough. There are those who urge much harsher restraints than those now in effect or proposed in the President's budget.

It may indeed happen that harsher measures will be required -- and when they are required we will not shrink from employing them.

In his Budget Message to the Congress, President Johnson has made an unqualified commitment that "....should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability." Time and again, he has emphasized the fact that -- in the words of the Economic Message -- "....the extent of the fiscal or monetary restraint that will be needed to avoid inflationary pressures will depend directly on the restraint and moderation exercised by those who have power over wages and prices." This is part of the answer to those who ask whether there will be tax increases later this year.

Events alone -- events in Vietnam which are not ours alone to determine, and events here at home which only we can determine -- will decide whether or not we will need further restraints. In the meantime, the course of wisdom is not to impose further restraints <u>unless</u> or <u>until</u> the "unforeseen inflationary pressures" referred to by the President are clearly foreseeable.

We have seen too many expansions turned into recessions by slamming down too hard on the brakes. We have seen far too much unemployment and underemployment and too much idle productive capacity far too long to countenance needless and drastic cutbacks in private demand -- thus deliberately creating idle reserves of manpower and capacity.

Today, in short, there is no less need for moderation and balance in dealing with any danger of economic excess than there has been in recent years in dealing with economic deficiency.

Our policy mix -- while it must always be attuned to the times -- must continue to be inclusive rather than exclusive -- to be directed toward the pursuit, not of one economic goal at the expense of all others, but of all our major economic goals at one and the same time -- the paramount goals of a balanced budget in a balanced economy, of full employment with reasonable price stability, and of relative equilibirium in our international balance of payments.

Indeed, this is a somewhat exciting if novel challenge -- to be so near to the attainment of our long sought objectives -- to be confronted by the unique and welcome task of preserving and managing a balanced prosperity -- rather than striving to approach it.

We will continue to reject the view that these goals are incompatible -- indeed, the record of the past five years proves they are not. We will continue to believe that to seek one of them by sacrificing the others is, to say the least, unwise national policy -- indeed, the record of the 50's proves how unwise.

We recognize, of course, that from time to time special situations may occur which will require that we place one economic goal ahead of the others. It is not, for example, inconceivable that there may arise a threat of inflation of such size or duration that we will have no choice but to place highest and most urgent priority upon price stability. But situations are seldom this extreme -- and they are not this extreme today.

Our challenge is, instead, to find the mix of monetary, credit and fiscal measures best calculated to move us ahead toward all our goals -- while at the same time recognizing that public policies will not be adequate if some groups who enjoy and exercise substantial market power choose to push up or maintain prices or wages at unwarranted levels.

There are those in recent weeks who are raising their voices in a clamor of impatience for the immediate imposition of additional and much harsher restraints on demand than contemplated by present or proposed measures. Many of these are the same voices which have been historically preoccupied with inflation -- they were apprehensive about inflation in 1962, in 1963, and in 1964 -- indeed, at every stage in the current economic expansion when public policy has been directed towards a moderate support of the growth of that demand. Indeed, they seem to have forgotten that in the

good old days of the Fifties, before the emergence of the wage-price guidelines, which they now decry, they managed to have a sharp price-wage spiral together with a recession.

There is an important difference between a policy mix designed to moderate carefully the growth of demand so as not to press too hard on expanding supply, thereby serving to sustain the expansion and harsher policies applied so suddenly and massively as to risk a sharp downturn or a return to stagnation. It is important that this line of difference be sought with care and moderation. We have had experience in the not too distant past when the sharpness and magnitude of that shift from stimulus to harsh restraint induced recession.

In order to maintain perspective in the making of national decisions about how far and how fast we go to cut back on the increase in demand which has been the life blood of the five-year expansion, it may be well to recall the genesis of our current expansion.

The economic expansion we now enjoy was far from a foregone conclusion five years ago. Then the nation was gripped by the fourth post-war recession -- somberly 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 induced in large part by too sharp a turn to a deflationary policy mix. Unemployment was intolerably high. Business investment in new plant and equipment for some years had been unable to clear a barrier to the path of steady increase because of the structural drag of excessive wartime taxation, too long endured. This business investment was 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 the three preceding years, had made the dollar vulnerable and threatened the international monetary system based upon it.

Five years ago this nation faced dire possibilities; economic stagnation at home; an interruption of the unprecedented growth of free world trade and economic development; and the weakening of the economic and financial base of U. S. political, diplomatic and military power.

Since that time there has been a constant re-evaluation of policy and a steadily evolving program of action. As a result economic progress in the year 1965 has enabled us to scale new peaks of achievement in moving toward our national economic goals.

It may well be that the major difference between what has happened to our economy before 1961 and since is the stress on what President Johnson's Council of Economic Advisers calls "a continuous, rather than a cyclical, framework" for economic policy. As the economic commentary in "Business Week" recently put it "This means that instead of nervously switching policy around to counteract upswings or downswings, policymakers should aim at promoting continuous long-term growth. A steady stimulus to demand should, according to the new economics, be kept on the economy to keep recessions from ever starting."

As of now the Administration, whether practicing new economics or old, is shifting from a policy of a steady stimulus to demand to a policy of moderate restraint to counter the new cyclical consequences of the Vietnam build-up. But, in so doing, it is very mindful of the continuing task of preserving and promoting continuous long term growth -- both now and in the period that will surely come after Vietnam has been settled.

If we in the Administration are to be proven guilty of economic sin or bad judgment, it will be that of striving to support the policy of achieving the maximum of all our economic goals in the spirit, framework and policy set forth by the Congress in the Employment Act of 1946.

Against this background let us look at the present situation objectively and carefully with a concern that we press toward all these goals rather than become preoccupied with a single one. In this calendar year 1966 restraints which did not characterize 1965 have already been imposed upon the economy. Beginning in January an extra $6 billion a year in Social Security and Medicare taxes is being withdrawn from private purchasing power to flow into the trust funds. This was not true of December 1965, or November, or October.

In December 1965 the Federal Reserve Board announced two actions designed, in its words, "to dampen mounting demands on banks for still further credit extensions that might add to inflationary pressures." The full effect of these actions, which take a considerable period of time to be felt, is yet to be ascertained.

The new tax proposals recommended by the President, if adopted by March 15 as he urged, would withdraw from private purchasing power an additional $2.9 billion during calendar 1966.

The shift in the budgetary situation from substantial deficits in fiscal 1966, brought on by the response to the challenge of Vietnam, to surpluses or minor deficits in the administrative, cash and national income account budgets has been made possible by expenditure reductions coupled with the new tax proposals.

Coming on stream in 1966 are vast quantities of new industrial capacity which are the fruits of investments made in 1964 and 1965. Coming into the labor force are a million and one-half additional new entrants from the younger age group and, in addition, many hundreds of thousands especially disadvantaged in the labor market are being given the benefit of specially designed manpower training opportunities to better equip them to fill the needs of the labor market. And, of course, the dwindling rate of unemployment is stimulating renewed effort in the private sector to train and better utilize the available labor force. Thus, although purposefully ignored by some, there is a public-policy reliance now upon structural unemployment programs to push down the unemployment rate -- which programs were not recently improvised but have been developed in years past.

Given all these factors the wise course of balance and moderation in pursuing continued growth, a higher rate of employment and reasonable price stability calls for first determining how the economy reacts to this new mix of relatively moderate restraints before rushing to embrace the far harsher measures -- presumably substantially increased tax rates, direct price and wage controls, and much tighter monetary restraint.

I see no good reason why, if we keep our heads and resist any temptation for precipitate action, and, if additional action becomes necessary, choose the appropriate course with a concern for all our objectives and a sense of the need for flexibility when the pressures of Vietnam are removed, we cannot sustain our success of recent years in moving ahead simultaneously upon all major economic fronts. And there can be no denying that success and the vast benefits it has brought to the American people these five years past.

Under the impetus of the massive federal tax reductions, totalling over $20 billion per year on projected 1966 levels, and other measures of the past five years, our gross national product -- which stood at an annual rate of $503.6 billion in early 1961 -- had risen $193.6 billion by late 1965 -- an increase of over one-third. Over that same period, virtually every economic indicator -- employment, corporate profits, business investment, retail sales, personal income -- all have set new records.

In the preceding half-decade -- the 1955-1960 period -- our annual rate of real growth was only 2.2 percent -- far lower than that of virtually all other major countries. In the 1960-65 period it rose to 4.5 percent -- an immense improvement, but still behind most of the others. In 1965, however, we forged ahead with a rise in real national output of 5.5 percent. As a result, our growth in real output has now surpassed that of every other major country in the world.

As our economy has expanded, the unemployment rate has continued to fall -- despite the growing impact of automation and the huge influx into the labor force of young people born in the baby-boom of the early postwar years. Last month, we reached our long-sought "interim" target of 4 percent unemployment -- the lowest monthly rate since April of 1957.

Nor have we purchased this progress in output and in employment by sacrificing price stability. We have, on the contrary, maintained a record of price stability unequalled by any other major country in the world -- a record surpassed by no industrial nation and by only three other small countries -- Guatemala, El Salvador and Venezuela -- a record unrivalled in any other period of our own postwar experience.

Last year, that record developed some blemishes. Consumer prices rose 1.7 percent -- a slightly greater rise than the average increase of 1.3 percent over other recent years. But from December 1964 to December 1965 it rose by 2 percent. In wholesale prices, we experienced virtual stability from 1958 to early 1965, but saw a 3.4 percent rise by the end of 1965.

These increases are still quite mild, and thus far of limited duration, compared with either our experience in the mid-50's, or the most recent experience of practically every other country in the world. But even a mild rise is unwelcome, and calls for vigilant concern. We are well aware that any complacency toward mild increases in costs and prices is an open invitation to more persistent or larger increases -- and to allow these is to endanger our excellent record of progress on our other major economic fronts.

But, in any meaningful sense of the phrase, we have over recent years achieved reasonable price stability. As a result, the abundant economic gains our citizens have enjoyed have, in large measure, been real and not illusory gains.

Even in the year just past when price indexes showed a steeper rise, these gains were <u>real</u>. From the fourth quarter of 1964 to the fourth quarter of 1965, for example, per capita disposable personal income -- even after adjustment for price changes -- grew by 4.7 percent. Between 1961 and 1965 it rose 15.2 percent <u>in real terms</u>.

Lest there by any doubt about this record -- and there are those who seem to have their doubts -- let them heed the words of the Wall Street Journal, which stated in a recent "Outlook" column -- and I quote:

> "...prices, of course, are rising. But over the span of the present long expansion cycle the general level of prices has risen much less so far than income. Buying power for most consumers has gained.

> "A quick glance at the record of both retail and wholesale prices compared, for example, with the rise in the average weekly wage of a factory worker, tells what has happened in this area."

The column then goes on to point out that, while wholesale prices have risen by 3 percent and consumer prices by 7 percent since 1961, the average weekly wage of a factory worker has risen by a full 24 percent -- more than three times the rise in consumer prices. Even in the more recent period -- when the price rise has picked up somewhat -- real earnings have continued to make solid gains. Between December of 1964 and December of 1965, the average weekly spendable earnings of a manufacturing worker with three dependents has risen by 2.2 percent -- after adjustment for changes in prices.

Nor is this the whole story. For it neglects one of the most impressive accomplishments of this expansion -- its ability to create jobs not only for those without jobs but for the host of young people entering our labor force for the first time. From January of 1961 to January of this year, our economy has created 8.4 million new jobs -- an average of 1.7 million new jobs a year. And in the most recent 12-month period -- from January of 1965 to January of this year -- our economy has generated 2.8 million new jobs -- half again as high as the annual average of the past five years.

The expansion has also meant a strong and steady rise in after-tax corporate profits -- thus avoiding the unhappy pattern of other expansions when profits after taxes would show a strong early surge and then succumb to the growing squeeze exerted by increased labor and other costs. Thus, after-tax corporate profits last year stood at $44.5 billion -- up from $37.2 billion in 1964, $32.6 billion in 1963, $31.2 billion in 1962, $27.2 billion in 1961, and $26.7 billion in 1960.

These gains were the result of an expansionary fiscal and monetary policy that included -- not only massive reductions in Federal taxes to generate greater growth in the private sector -- but a policy of rigorous restraint in the growth of Federal expenditures.

Through the tenacious pursuit of that policy, President Johnson has accomplished a truly remarkable result. In the fiscal year 1964 that he took over the responsibilities of office, the original estimated expenditure level was $98.8 billion.

The expenditure target for fiscal 1966, the third year of his service, 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.

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 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 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.

While thus we have surged strongly ahead on all major fronts in our domestic economy, we have also made real progress in reaching equilibrium in our international balance of payments. Indeed, our domestic economic growth -- as reflected in our excellent record in price stability and our significant gains in productivity -- has served as one of our greatest sources of strength on the international front.

Nor should we forget that the strength of the dollar rests upon the strength of our economy -- and both are without peer anywhere in the world today. Our international position, indeed, is awesomely strong. For we enjoy:

-- a record of cost-price stability unsurpassed by any other major country;

-- the world's most productive and efficient economy;

-- the world's largest supply of gold;

-- the world's strongest creditor position;

-- the world's most favorable trade position.

And while we still have a tough job ahead, we now stand within reach of equilibrium in our balance of payments. Between 1960 and 1964, we reduced our overall balance of payments deficit, in uneven steps, from $3.9 billion to $2.8 billion. Last year, we cut it to $1.3 billion -- an improvement in one year that exceeded the total improvement over the previous four years.

Last year's improvement occured despite heavy outflows of private capital during the early months, despite a decline of nearly $1.9 billion in our trade surplus, and despite the conversion of some $500 million in U.S. securities by the United Kingdom. Without question the lion's share of credit for our excellent progress must go to our businesses and banks who participated in the program of voluntary restraint over private capital outflows.

Our 1965 record, and the heightening of the voluntary program for 1966, give us good reason to expect continuing improvement in the private capital area.

In general, the enactment this year of the Foreign Tax Investors Act -- now in the House Ways and Means Committee -- a rise in investment income, a moderation of direct investment outflows, and a movement toward an expanding trade surplus, interrupted in 1965 by special circumstances, offer the most promising areas for our march toward equilibrium in 1966.

Of course, the two main imponderables center around rising balance of payments costs in our military and aid programs as the result of Vietnam and the direct and indirect impact of Vietnam on the domestic economy and the balance of trade.

We must, therefore, be more rigorous and unrelenting than ever in our search -- both in and out of government -- for ways to offset the impact of Vietnam on our balance of payments.

But, we should also keep in mind that the balance of payments costs of the Vietnam conflict are not permanent or ordinary costs, and that, although we have allowed for an increase in these costs in our outlook for 1966, it is simply not possible to say at this time how much they will affect our balance of payments in 1966.

Equilibrium, nevertheless, remains our goal for 1966 -- and we mean to reach it.

Thus, both on the international and on the domestic economic front we face uncertainties -- uncertainties stemming from our commitment in Vietnam.

We have behind us, however, a record of five years of solid achievement in the pursuit of our four paramount economic goals: a balanced budget in a balanced economy, full employment -- with reasonable price stability -- and equilibrium in our balance of payments.

We intend to continue that achievement -- neither lessening nor abandoning our effort on any of these fronts, but pushing steadily ahead on each of them alike. We intend also to remain acutely alert to new needs and new circumstances -- ready to shift gears should that be warranted while refusing to veer toward extremes.

We stand now on solid economic ground -- and there is no reason for us to lose our footing as long as we keep our heads.

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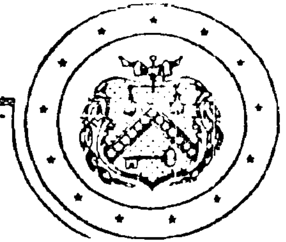
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

February 17, 1966

Secretary of the Treasury Henry H. Fowler made the following statement for broadcast use today in New York in connection with a meeting of the National Industrial Conference Board:

"In any meaningful sense of the phrase, we have over recent years achieved reasonable price stability. As a result, the abundant economic gains our citizens have enjoyed have, in large measure, been real and not illusory gains.

"We have, on the contrary, maintained a record of price stability unequalled by any other major country in the world -- a record surpassed by no industrial nation and by only three other small countries -- Guatemala, El Salvador and Venezuela -- a record unrivalled in any other period of our own postwar experience.

"While wholesale prices have risen by 3.6 percent and consumer prices by 6.8 percent since 1961, the average weekly wage of a factory worker has risen by a full 23½ percent -- more than three times the rise in consumer prices. Even in the more recent period -- when the price rise has picked up somewhat -- real earnings have continued to make solid gains. Between December of 1964 and December of 1965, the average weekly spendable earnings of a manufacturing worker with three dependents has risen by 2.2 percent -- after adjustment for changes in prices.

"We have behind us a record of five years of solid achievement in the pursuit of our four paramount economic goals: a balanced budget in a balanced economy, full employment -- with reasonable price stability -- and equilibrium in our balance of payments.

"We intend to continue that achievement -- neither lessening nor abandoning our effort on any of these fronts, but pushing steadily ahead on each of them alike. We intend also to remain acutely alert to new needs and new circumstances -- ready to shift gears should that be warranted while refusing to veer toward extremes.

"We stand now on solid economic ground -- and there is no reason for us to lose our footing as long as we keep our heads."

F-385

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Televised for ABC in connection with NICB Spee[ch] 17 Feb '66

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STATEMENT BY SECRETARY FOWLER

In any meaningful sense of the phrase, we have over recent years achieved reasonable price stability. As a result, the abundant economic gains our citizens have enjoyed have, in large measure, been real and not illusory gains.

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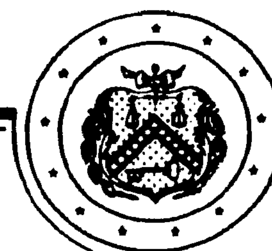


WASHINGTON, D.C.

LEASE 6:30 P.M.,
, February 21, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills,
ries to be an additional issue of the bills dated November 26, 1965, and the other
to be dated February 24, 1966, which were offered on February 16, 1966, were opened
Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or there-
, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The
s of the two series are as follows:

OF ACCEPTED ITIVE BIDS:	91-day Treasury bills maturing May 26, 1966		182-day Treasury bills maturing August 25, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
igh	98.817	4.680%	97.532	4.882%
ow	98.810	4.708%	97.523	4.900%
verage	98.813	4.696% 1/	97.527	4.892% 1/

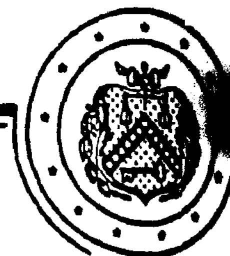
5% of the amount of 91-day bills bid for at the low price was accepted
3% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

rict	Applied For	Accepted	Applied For	Accepted
on	$ 26,166,000	$ 14,316,000	$ 27,373,000	$ 17,373,000
York	1,555,437,000	751,437,000	1,389,124,000	668,709,000
adelphia	31,690,000	17,140,000	16,282,000	3,282,000
eland	30,410,000	29,810,000	52,596,000	27,896,000
mond	14,137,000	14,137,000	3,804,000	3,804,000
ita	40,270,000	26,260,000	35,489,000	14,297,000
ago	340,519,000	209,984,000	321,461,000	107,361,000
ouis	52,090,000	31,585,000	22,873,000	9,873,000
eapolis	16,973,000	12,698,000	9,293,000	6,323,000
s City	27,892,000	26,392,000	11,314,000	10,029,000
s	21,722,000	12,872,000	11,802,000	6,832,000
rancisco	237,039,000	155,022,000	193,343,000	124,673,000
OTALS	$2,394,345,000	$1,301,653,000 a/	$2,094,754,000	$1,000,452,000 b/

udes $238,835,000 noncompetitive tenders accepted at the average price of 98.813
udes $105,484,000 noncompetitive tenders accepted at the average price of 97.527
e rates are on a bank discount basis. The equivalent coupon issue yields are
% for the 91-day bills, and 5.09% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 21, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury one series to be an additional issue of the bills dated November 26, 1965, and the series to be dated February 24, 1966, which were offered on February 16, 1966, were at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or th abouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing May 26, 1966		:	182-day Treasury bills maturing August 25, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equi Annual Rate
High	98.817	4.680%	:	97.532	4.882%
Low	98.810	4.708%	:	97.523	4.900%
Average	98.813	4.696% 1/	:	97.527	4.892% 1/

15% of the amount of 91-day bills bid for at the low price was accepted
3% 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	$ 26,166,000	$ 14,316,000	:	$ 27,373,000	$ 17,37
New York	1,555,437,000	751,437,000	:	1,389,124,000	668,70
Philadelphia	31,690,000	17,140,000	:	16,282,000	3,2
Cleveland	30,410,000	29,810,000	:	52,596,000	27,8
Richmond	14,137,000	14,137,000	:	3,804,000	3,80
Atlanta	40,270,000	26,260,000	:	35,489,000	14,2
Chicago	340,519,000	209,984,000	:	321,461,000	107,36
St. Louis	52,090,000	31,585,000	:	22,873,000	9,87
Minneapolis	16,973,000	12,698,000	:	9,293,000	6,3
Kansas City	27,892,000	26,392,000	:	11,314,000	10,0
Dallas	21,722,000	12,872,000	:	11,802,000	6,83
San Francisco	237,039,000	155,022,000	:	193,343,000	124,6
TOTALS	$2,394,345,000	$1,301,653,000	a/	$2,094,754,000	$1,000,4

a/ Includes $238,835,000 noncompetitive tenders accepted at the average price of
b/ Includes $105,484,000 noncompetitive tenders accepted at the average price of
1/ These rates are on a bank discount basis. The equivalent coupon issue yields 4.82% for the 91-day bills, and 5.09% for the 182-day bills.

F-386

reads as follows:

COPY

My advice to all of you gentlemen in the savings and loan industry is not to take this admonition seriously. Don't count on inflation to bail you out, either on poorly considered loans or poorly considered borrowing. Restraint, prudence and good judgment are the appropriate watch words for all of us today whether in the public or private sector.

I do not believe that this congressional attitude has chang

would enable the President to cut taxes and put the responsibility on the Congress for raising taxes and they objected that this approach would violate the constitutional responsibility of the Congress to control tax policy.

From my particular vantage point it appears that there may be some change in thinking occuring in the country. The Congress seems to be taking justifiable pride in the economic climate that they have created with the enactment of the Revenue Acts of 1962 and 1964. They are probably much more certain that tax policy is an effective economic weapon.

I believe that the 1962 - 1964 experience also convinced the Congress and the country that under a Congressional system any change in over-all tax policy takes not months but years. From my experience, I would say that this lengthly deliberation is appropriate. The consequences of tax policy carry so many ramifications and spread in so many directions that it is not always easy for a small group of men to decide quickly on the best course of action. In this respect, I believe that our Congressional system is superior to the Parliamentary systems that prevail in most countries.

However, it is equally apparent that a Parliamentary system can move much more quickly to correct short run economic dislocations. The Government, under such a system, makes its proposals which are either enacted in a period of days or weeks or the Government falls.

From all this experience I would imagine that there would develop rather wide spread acceptance of Secretary Dillon's statement that the

"This does not mean that cyclical changes in tax policy would not be useful. Nor, fortunately, does it mean that tax policy is entirely impotent in moderating cyclical fluctuations today. By promoting sustained growth and a stronger economy, tax policy can be and, as it has been developed over the past three and one-half years, now is an important counter force both to recessions and to inadequate growth. But we clearly have a major piece of unfinished business to resolve before we can claim that tax policy is fully equipped to do for us the job that any modern economy requires of it."

On May 8, 1962 th~~e Administrati~~on did send to Congress a recommendation which would give ~~to~~ the President Standby tax reduction authority.

Such authority would permit the President to reduce the fixed statutory rates by up to 5 percentage points for a period of six months with the possibility of extending the reduction for another six months. But in no event could the period of uninterrupted tax reduction exceed one year without specific affirmative Congressional action. A plan of tax reduction would take effect 31 days after submission by the President, but only if in the course of this period Congress did not disapprove the plan by concurrent resolution. Thus the proposed legislation attempted to combine assurance of Congressional control with provision for the flexibility of action needed to achieve the objectives of maximum employment and output, economic stability and growth.

~~At the time we found that~~ this concept was simply too novel for the Congress even to consider. They objected that there was no proof that tax policy was a useful counter-cyclical tool; they objected that this approach

STANDBY TAX AUTHORITY AS IT RELATES TO STABILITY IN THE COMMERCIAL BANKING SYSTEM

1964

On Saturday, June 6th, the Honorable Douglas Dillon, Secretary of the Treasury, delivered an address at the Harvard Business School which I consider to be must reading for anyone in the financial community or anyone in this government who is charged with responsibility in this area. I will not attempt to cover all the subjects discussed by Secretary Dillon, but I do want to call to your attention the following three paragraphs of his remarks:

"While the prime purpose of our overall tax program is—and always has been—the long-range stimulation of our economy to permanently higher levels, the timing of the program has been important in sustaining the present expansion, and deliberately so. We must not, however, let this question of timing obscure the underlying objectives of the tax program. The fact that the Revenue Act of 1964 is having some beneficial counter-cyclical effects should not be taken to mean that we have succeeded in developing a new and effective counter-cyclical tool.

"There remain, in my opinion, great obstacles to the use of tax policy for purely counter-cyclical purposes. The chief of these obstacles is the fact that, within our constitutional system, a long lag typically intervenes between a request for a change in tax rates and legislative approval. Unless and until some method is worked out—acceptable to the Congress and consistent with its prerogatives—whereby tax rates can be varied without undue delay, the purely counter-cyclical function of tax policy will remain outside our arsenal of economic tools.

However, in the excise tax legislation last year and in this year's tax proposals, the Congress is demonstrating the rather amazing adaptability which has characterized its history. While it is unwilling to surrender what it considers to be its constitutional prerogative to control the taxes of the U. S., it is also demonstrating that it does understand that tax policy as well as budget policy and monetary policy are tools the U. S. can and should be prepared to use flexibly and quickly. The doubts which Secretary Dillon expressed in 1964 and in which I shared at that time are being dispelled at this moment by the demonst ability of the Congress to act prudently and carefully but with great speed. I must confess that I find this responsibl action on the part of the Congress to be further proof of the dynamism of our system of government.

In conclusion, let me draw your attention to a short paragraph on page 20 of the President's Economic Report. It

economic policy tool. — (go to Dillon) — //

The tax program involves four parts:

1. A new graduated withholding system for the payment of individual income taxes. This is due to go into operations on May 1, 1966. While no taxpayers' final tax liabilities will be increased, the new withholding system will put many more individual taxpayers on a current payments basis. The graduated withholding system also will reduce the amount of overwithholding and underwithholding of income taxes, which we have under the present 14 percent flat-rate withholding plan, and far more taxpayers will find, under the new six-bracket withholding system, that they will wind up their taxable years with a "break-even" situation -- that is, with the amount of taxes withheld being withing $10 of final tax liabilities.

"Tax Adjustment Act of 1966" for House floor action.

Barring unforeseen circumstances, this legislation will be passed by the House -- perhaps by nightfall tomorrow (Wednesday, February 23, 1966). We expect that the Senate Finance Committee, before the week is out, will start its public hearings on the bill.

Our goal is to have it enacted by March 15 -- that is, within 60 days of the time President Johnson called for action. We are confident this deadline can be met.

Congress was justifiably proud of the economic climate created through the application of tax policy to economic problems in the Revenue Acts of 1962, 1964, and 1965.

Now we are again witnessing how tax changes, as an integral part of fiscal policy, can be used as a counter-cyclical

approval of such changes.

That theory is no longer valid. The Congress right now is demonstrating -- as it did with the swift enactment of the excise tax legislation in 1965 -- that tax policy is an effective economic weapon which can be brought into play both responsibly and responsively without protracted delays.

The excise tax legislation of last year was on the books within about a month of the time it was proposed.

President Johnson proposed the tax adjustments now before Congress in mid-January. The House Ways and Means Committee moved swiftly to consider his recommendations. By last week -- on February 17 -- the distinguished chairman of the Ways and Means Committee, Representative Wilbur Mills of Arkansas, was before the House Rules Committee seeking the necessary action to clear the

objectives. In the different economic circumstances facing us today, it is natural enough that we look again to flexible fiscal policy, and that is what the Administration has done.

The House of Representatives tomorrow is scheduled to consider the President's tax program, which will increase Federal revenues by some $6 billion between now and July 1, 1967. This legislation, in both its timing and content, illustrates how tax policy is being used for counter-cyclical purposes.

There was a time, not too many years ago, when the generally accepted theory was that tax policy wasn't a very useful tool -- either to help nip inflationary developments in the bud, or to head off cyclical declines. It was argued that -- in our system of government -- there would always be a long time lag between a Presidential request for changes in the tax structure and legislati

It is tempting to say that Vietnam is the reason for the change in our economy. It has indeed been a marginal factor of considerable importance. But the roots go deeper. The Vietnam build-up, we should recall, is being superimposed on an economy that has been gathering increased strength, more or less steadily over the past five years. Part of that strength should be credited to the timely income tax reductions enacted in 1964 and the excise tax cuts enacted last year. More liberal depreciation allowances and the investment tax credit of 1962 have helped, too. But most of all, the economy's strength is a reflection of private initiative, which has been unfettered through the reduction of needlessly high tax rates.

A clear lesson of the experience in the past several years is that flexible fiscal policy can be made to serve national economic

Fortunately, our economic policy is not a "stop-and-go" proposition. The basic goal of economic policy today is the same as a year ago, or three years ago, or even five years ago -- to keep the United States moving forward in terms of real economic growth.

In the earlier years of this decade the gap between actual and potential Gross National Product was very substantial. The economic policy "mix" then was designed to stimulate demand.

Today, unemployment is down to four percent -- with good prospects of going still lower. Our productive capacity is closer to full utilization then it has been for a number of years. Further we are facing the greater Vietnam build-up programmed in the new budget. In these circumstances our fiscal and monetary policies are appropriately aimed at moderate restraint.

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS
AT THE
WASHINGTON HILTON HOTEL, WASHINGTON, D. C.
TUESDAY, FEBRUARY 22, 1966, 12:30 P.M., EST

There seems to be something about the gray, gloomy days of the late winter season that brings out all the doubts and uncertainties about the nation's economic health.

A year ago -- it was just about this time of year -- there was considerable talk to the effect that the economy was running out of steam.

We were moving then into our fifth straight year of sustained expansion -- an expansion which, no matter how you measure it, was solid and real.

Today we are on the threshold of the sixth year of that economic expansion.

But now we are hearing about a new set of doubts and uncertainties -- keyed largely to an anxious scanning of the skies for signs of inflation.

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That theory is no longer valid. The Congress right now is demonstrating -- as it did with the swift enactment of the excise tax legislation in 1965 -- that tax policy is an effective economic weapon which can be brought into play both responsibly and responsively without protracted delays.

The excise tax legislation of last year was on the books within about a month of the time it was proposed.

President Johnson proposed the tax adjustments now before Congress in mid-January. The House Ways and Means Committee moved swiftly to consider his recommendations. By last week -- on February 17 -- the distinguished chairman of the Ways and Means Committee, Representative Wilbur Mills of Arkansas, was before the House Rules Committee seeking the necessary action to clear the "Tax Adjustment Act of 1966" for House floor action.

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Now we are again witnessing how tax changes, as an integral part of fiscal policy, can be used as a counter-cyclical economic policy tool.

On June 6th, 1964, the Honorable Douglas Dillon, then Secretary of the Treasury, in an address at the Harvard Business School had this to say:

> "While the prime purpose of our overall tax program is -- and always has been -- the long-range stimulation of our economy to permanently higher levels, the timing of the program has been important in sustaining the present expansion, and deliberately so. We must not, however, let this question of timing obscure the underlying objectives of the tax program. The fact that the Revenue Act of 1964 is having some beneficial counter-cyclical effects should not be taken to mean that we have succeeded in developing a new and effective counter-cyclical tool.
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On May 8, 1962 President Kennedy did send to Congress a recommendation which would have given to the President standby tax reduction authority.

Such authority would have permitted the President to reduce the fixed statutory rates by up to 5 percentage points for a period of six months with the possibility of extending the reduction for another six months. But in no event could the period of uninterrupted tax reduction have exceeded one year without specific affirmative Congressional action. A plan of tax reduction would have taken effect 31 days after submission by the President, but only if in the course of this period Congress did not disapprove the plan by concurrent resolution. Thus the proposed legislation attempted to combine assurance of Congressional control with provision for the flexibility of action needed to achieve the objectives of maximum employment and output, economic stability, and growth.

This concept was simply too novel for the Congress even to consider. They objected that there was no proof that tax policy was a useful counter-cyclical tool; they objected that this approach would enable the President to cut taxes and put the responsibility on the Congress for raising taxes and they objected that this approach would violate the constitutional responsibility of the Congress to control tax policy.

I do not believe that this Congressional attitude has changed.

However, in the excise tax legislation last year and in this year's tax proposals, the Congress is demonstrating the rather amazing adaptability which has characterized its history. While it is unwilling to surrender what it considers to be its constitutional prerogative to control the taxes of the U. S., it is also demonstrating that it does understand that tax policy as well as budget policy and monetary policy are tools the U. S. can and should be prepared to use flexibly and quickly. The doubts which Secretary Dillon expressed in 1964 and in which I shared at that time are being dispelled at this moment by the demonstrated ability of the Congress to act prudently and carefully but with great speed. I must confess that I find this responsible action on the part of the Congress to be further proof of the dynamism of our system of government.

In conclusion, let me draw your attention to a short paragraph on page 20 of the President's Economic Report. It reads as follows:

"Perhaps our most serious economic challenge in 1966 will be to preserve the essential stability of costs and prices which has contributed so significantly to our balanced progress."

My advice to all of you gentlemen in the savings and loan industry is to take this admonition seriously. Don't count on inflation to bail you out on poorly considered judgments in your day-to-day activities. Restraint, prudence and good judgment are the appropriate watch words for all of us today whether in the public or private sector.

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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 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 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 actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

BETA - MODIFIED

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 pro vided the names of the customers are set forth in such tenders. Others than bank institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust compani and from responsible and recognized dealers in investment securities. Tenders fro others must be accompanied by payment of 2 percent of the face amount of Treasury applied for, unless the tenders are accompanied by an express guaranty of payment 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 Treasur 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 Fe Reserve Bank on March 3, 1966 (16), in cash or other immediately available or in a like face amount of Treasury bills maturing March 3, 1966 (17). and exchange tenders will receive equal treatment. Cash adjustments will be m differences between the par value of maturing bills accepted in exchange and the price of the new bills.

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

TREASURY DEPARTMENT

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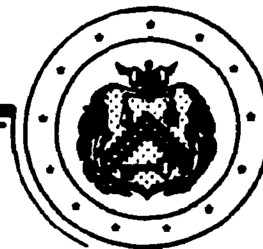

WASHINGTON, D.C.

February 23, 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 March 3, 1966, in the amount of $2,201,257,000, as follows:

91-day bills (to maturity date) to be issued March 3, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated December 2,1965, and to mature June 2,1966, originally issued in the amount of $1,000,153,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated March 3,1966, and to mature September 1, 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, February 28, 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.

F-387

Exhibit 2-A

BETA - MODIFIED

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, 4:00 p.m., EST
Wednesday, February 23, 1966.
(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 March 3, 1966 (3), in the amount of $ 2,201,257,000 (4), as follows:

91 (5) -day bills (to maturity date) to be issued March 3, 1966 (6), in the amount of $ 1,300,000,000 (7), or thereabouts, representing an additional amount of bills dated December 2, 1965 (8) and to mature June 2, 1966 (9), originally issued in the amount of $1,000,153,000 (10), the additional and original bills to be freely interchangeable.

182 (11) -day bills, for $1,000,000,000 (12), or thereabouts, to be dated March 3, 1966 (13), and to mature September 1, 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 will be payable without interest. They will be issued in bearer form only, and denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, February 28, 1966 (15), will not be received at the Treasury Department, Washington. Each tender must 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

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 March 3, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 3, 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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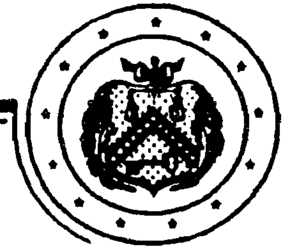
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
esday, February 23, 1966.

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced that the tenders for $1,000,000,000, or there-ts, of 365-day Treasury bills to be dated February 28, 1966, and to mature February 1967, which were offered on February 16, were opened at the Federal Reserve Banks y.

The details of this issue are as follows:

Total applied for - $1,771,167,000
Total accepted - $1,000,027,000 (includes $33,026,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 95.007	Equivalent rate of discount approx.	4.925% per annum
Low	- 94.974	" " " " "	4.957% " "
Average	- 94.986	" " " " "	4.945% " " 1/

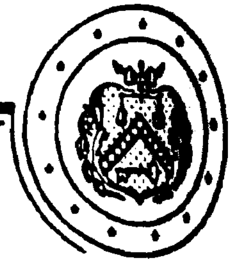
(81 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 37,223,000	$ 16,223,000
New York	1,312,532,000	769,342,000
Philadelphia	11,686,000	1,686,000
Cleveland	35,900,000	30,900,000
Richmond	6,423,000	6,423,000
Atlanta	17,107,000	12,107,000
Chicago	224,285,000	86,335,000
St. Louis	26,758,000	20,758,000
Minneapolis	6,660,000	5,660,000
Kansas City	2,223,000	2,223,000
Dallas	16,262,000	2,262,000
San Francisco	74,108,000	46,108,000
TOTAL	$1,771,167,000	$1,000,027,000

1/ is rate is on a bank discount basis. The equivalent coupon issue yield is 5.21%.

-388

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Wednesday, February 23, 1966.

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced that the tenders for $1,000,000,000, or them abouts, of 365-day Treasury bills to be dated February 28, 1966, and to mature Feb 28, 1967, which were offered on February 16, were opened at the Federal Reserve Ba today.

The details of this issue are as follows:

Total applied for - $1,771,167,000
Total accepted - $1,000,027,000 (includes $33,026,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 95.007	Equivalent rate of discount approx.	4.925% per an
Low	- 94.974	" " " " "	4.957% "
Average	- 94.986	" " " " "	4.945% "

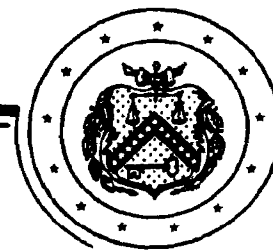
(81 percent of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied For	Total Accepted
Boston	$ 37,223,000	$ 16,223,000
New York	1,312,532,000	769,342,000
Philadelphia	11,686,000	1,686,000
Cleveland	35,900,000	30,900,000
Richmond	6,423,000	6,423,000
Atlanta	17,107,000	12,107,000
Chicago	224,285,000	86,335,000
St. Louis	26,758,000	20,758,000
Minneapolis	6,660,000	5,660,000
Kansas City	2,223,000	2,223,000
Dallas	16,262,000	2,262,000
San Francisco	74,108,000	46,108,000
TOTAL	$1,771,167,000	$1,000,027,000

1/ This rate is on a bank discount basis. The equivalent coupon issue yield is 5

F-388

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 24, 1966

FOR IMMEDIATE RELEASE

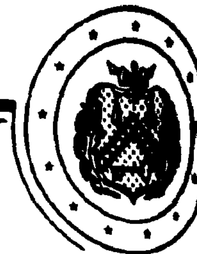
WITHHOLDING OF APPRAISEMENT ON
TITANIUM DIOXIDE

The Treasury Department is instructing customs field officers to withhold appraisement of titanium dioxide, pigment grade, rutile type, from Japan, exported by Sakai Trading Co., Ltd., Osaka, Japan, The Kouyoh Trading Co., Ltd., Osaka, Japan, and Marubeni-Iida Co., Ltd., Osaka, Japan, pursuant to a determination that this merchandise is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice to this effect is being published in the Federal Register.

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

The information alleging that the merchandise under consideration was being sold at less than fair value within the meaning of the Antidumping Act was received in proper form on November 17, 1964.

TREASURY DEPARTMENT



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Two technical points in this decision will be of interest to students of the Antidumping Act.

1. Regulations adopted in January 1965 state that Treasury will make a determination of no sales at less than fair value where the foreign producer revises his prices promptly after the start of the antidumping investigation so as to eliminate the likelihood of future sales at the prices which prevailed before the revision. The Japanese titanium dioxide decision states that this provision of the regulations does not prevent Treasury from making a positive determination of sales at less than fair value where the sales made prior to the price revision may be sufficiently substantial so as to constitute "hit and run" dumping -- traditionally viewed by economists as the most harmful type of dumping. Whether the less than fair value sales in this case are sufficiently substantial to constitute injury to domestic industry will now be decided by the Tariff Commission.

2. The Antidumping Act provides for dumping findings where merchandise "is being" sold at less than its fair value. The Japanese titanium dioxide decision construes this use of the present tense to refer, not to the time of the decision itself, but to the period at or reasonably near to the time when the complaint was filed.

TREASURY DEPARTMENT

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WASHINGTON, D.C.

February 24, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON TITANIUM DIOXIDE UNDER THE ANTIDUMPING ACT

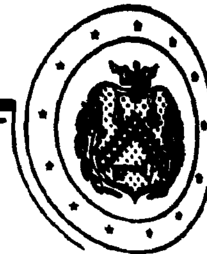
The Treasury Department has determined that titanium dioxide, pigment grade, rutile type, from Japan, exported by Sakai Trading Co., Ltd., Osaka, Japan, The Kouyoh Trading Co., Ltd., Osaka, Japan, and Marubeni-Iida Co., Ltd., Osaka, Japan, is being, or is likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. This action is being taken after consideration of all comments received pursuant to a "Notice of Intent to Discontinue Investigation and of Tentative Determination That No Sales Exist Below Fair Value," published in the Federal Register on November 24, 1965.

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

Notice of the determination, of the reasons therefor, 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 December 31, 1965, amounted to approximately $5,770,000. The sales at less than fair value amounted to approximately $400,000, with a dumping margin (difference between Japanese home price and price to the United States) of approximately $11,250.

TREASURY DEPARTMENT



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ROBERT M. FORTSON, Program ~~Advisor designate to~~ the Regional Commissioner of ~~Customs in Chicago~~ was born in Elwood, Indiana, August 16, 1921. ~~After attending~~ public schools ~~in Elwood,~~ ~~he entered~~ the Carnegie Illinois Steel Trade School at Gary, 19~~41, becoming a certified journeyman machinist after 4 years~~ of ~~training.~~ He worked for Carnegie Illinois Steel and a number of ~~other~~ engineering and tool firms in the area until 1955.

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Mr. Fortson has been active in civic and patriotic organizations serving the Indiana Municipal League, trustee of the Knights of Pythias, and the executive committee of the American Legion.

Mr. and Mrs. Fortson reside at 519 West 3rd Street, Anderson, Indiana.

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Mr Green →

JOHN G. GREEN, Program Advisor-designate to the Regional Commissioner at Chicago, was born on October 31, 1894, in St. Ignace, Mich. He attended parochial and public schools in Marquette, Mich.

Mr. Green was engaged in newspaper work for many years, during which he worked for the Marquette Mining Journal, the Duluth Herald, and [illegible] the Evening Telegram, where he was vice president and member of the newspaper staff.

[illegible] served on the Superior City Council for 12 years and has been active in many civic and business organizations.

[illegible] was named Collector of Customs for Duluth-Superior by Pres. Kennedy on November 29, 1962.

Mr. and Mrs. Green live at 2327 Hammond Avenue, Superior, Wis.

###

JOHN W. CRIMMINS, ~~Program Advisor-designate to the Regional Commissioner of Customs in Chicago,~~ was born December 29, 1911, in Louisville, Kentucky, ~~and~~ attended public schools and ~~the~~ Jefferson School of Law in Louisville.

Mr. Crimmins has had a long career in Kentucky ~~with~~ local and state government: From 1939 to 1943 he was Chief Deputy, Probate Department in the Clerk's Office , Jefferson County, and Administrator Alcohol Beverage Control Administration at Louisville in 1946. In 1962 he was appointed Collector of Customs at Louisville.

Mr. and Mrs. Crimmins reside at 2524 Broadmeade, Louisville, Ky. They have two sons and three daughters.

# # #

MRS. MARGUERITE R. BENSON, ~~Program Advisor-designate to the Regional Commissioner of Customs in Chicago,~~ was born ~~on October 10, 1898.~~ in Milwaukee, Wis. She attended parochial and commercial schools in Milwaukee, ~~Wisc.~~, Buffalo University, Buffalo, N. Y., and Columbia University ~~N. Y., N. Y.~~ in New York.

~~In 1961~~ she was appointed Collector of Customs for Milwaukee in 1961. ~~by Pres. Kennedy~~. ~~Prior to this she held several high county and state posts in Wisconsin organizations of the Democratic Party and was very active in local civic organizations.~~

Mrs. Benson has been very active in Milwaukee civic organizations.

She is married to Charles Carpenter Benson. They live at 1616 West Wisconsin Avenue in Milwaukee.

###

ANTON SESTRIC~~, Program Advisor-designate to the Regional Commissioner of Cutoms in Chicago,~~ was born in St. Louis, Mo., March 11, 1907.

Mr. Sestric~~'s career is one of public service having~~ served as Justice of the Peace, an elected office, from 1934 to 1946. In 1947 he was elected as Judge of the Magistrate Court, a position which he held until his appointment as Collector of Customs in 1961.

He served as Chairman of the Federal Executive Board of Greater St. Louis for two terms. Mr. Sestric has also been active in other civic organizations, such as, the Boys' Club of St. Louis, South Broadway Redevelopment Association, lay advisory board for St. Anthony's Hospital, United Givers Fund.

Mr. and Mrs. Sestric reside at 3137 Allen Ave., St. Louis, Mo.

# # #

WILLIAM RUMMEL~~, Program Advisor-designate to~~ the ~~Regional Commissioner of Customs in Chicago,~~ was born in Chicago, November 13, 1913, attending public schools, the Central YMCA College, and LaSalle Extension University.

From 1949 to 1964 he served as Jury Statistical Clerk in the Municipal Court of Chicago. He has, in addition, operated his own construction business. In 1964 he entered the Federal Government service as Comptroller of Customs in Chicago.

Mr. and Mrs. Rummel reside at 9201 S. Yates Ave., Chicago, Ill.

# # #

Mr. Rostenkowski was in the insurance and real estate businesses until he was appointed Collector of Customs in 1961. He was elected to the Illinois State Legislature in 1930. From 1931 to 1957 he served as Alderman from the 32nd ward of Chicago. He is a widower and lives at 1349 N. Noble St., Chicago.

JOSEPH P. ROSTENKOWSKI, ~~Program-Advisor-designate~~ to the Regional Commissioner of Customs in Chicago, was born on September 15, 1892, IN Chicago. He attended St. Stanislaus School in Chicago and Metropolitan Business College.

Prior to his appointment as Collector of Customs in 1961, he was in the insurance and real estate business. He was elected to the State legislature from the 27th District of Illinois in 1930 ~~and has been~~ ~~Democratic Ward Committeeman in the 32nd Ward of Chicago from 1935 to the present.~~

~~Mr. Rostenkowski is also a member of several fraternal organizations. On three occasions has served as a delegate to the Democratic National Convention from the 8th Congressional District of Illinois.~~

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###

MR. ROSTENKOWSKI

32nd Ward Ald 1930 - 1950

Sen 1930

State Rep.

Under the reorganization, the Program Advisors will serve as special assistants to the Regional Commissioner of Customs in Chicago, with responsibility for development of projects and programs in public affairs to keep travelers and traders fully informed of Customs laws and procedures.

(Biographies of the Program Advisors are attached).

oOo

For the Milwaukee Customs District -- Mrs. Marguerite R. Benson, currently Milwaukee Collector of Customs.

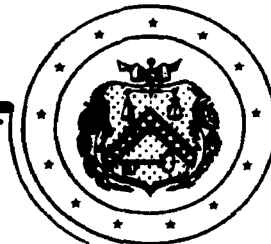
For the Louisville Customs District -- John W. Crimmins, currently Louisville Collector of Customs.

For the Duluth Customs District -- John R. Green, currently Duluth Superior Collector of Customs.

For the Port of Indianapolis -- Robert M. Fortson, currently Indianapolis Collector of Customs.

The appointments were made in accordance with Civil Service regulations and are part of the Presidential reorganization of the Bureau of Customs. The reorganization is designed to place the 176-year-old service wholly on a career basis and to make the agency more responsive to the growing needs of the traveling public and the commercial community.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 24, 1966

RELEASE A.M. NEWSPAPERS
FRIDAY, FEBRUARY 25, 1966

PROGRAM ADVISORS APPOINTED FOR
CHICAGO CUSTOMS REGION

Assistant Secretary of the Treasury True Davis today announced the appointment of seven Program Advisors for the new Chicago Customs Region IX, which will be activated Tuesday, March 1.

The Program Advisors, whose appointment will be effective March 1, are:

For the Chicago Customs District -- Joseph P. Rostenkowski, currently Collector of Customs for Chicago; and William Rummel, currently Chicago Comptroller of Customs.

For the St. Louis Customs District -- Anton Sestric, currently St. Louis Collector of Customs.

For the Milwaukee Customs District -- Mrs. Marguerite R. Benson, currently Milwaukee Collector of Customs.

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FOR IMMEDIATE RELEASE

~~HOLD FOR RELEASE 12:30 P.M., EST~~
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TREASURY DEPARTMENT
Washington

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON H.R. 12752
FRIDAY, FEBRUARY 25, 1966, 9 A.M. EST

Mr. Chairman and Members of the Committee:

I thank the Committee for the promptness of this hearing on the tax changes embodied in H.R. 12752, which has been passed by the House of Representatives. This bill essentially embodies the President's tax program. We urge that it be approved as quickly as possible.

There are times when rapid action on tax legislation is needed. This is particularly true in the present case. Each passing day makes it harder for us to reduce the deficit in fiscal year 1966, and much delay could lower our ability to reduce the deficit in fiscal year 1967.

Briefly, H.R. 12752 involves (a) temporary restoration of the rates of excise tax on automobiles and telphones that were in effect at the end of 1965 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.

The main budgetary fact behind this program is that increased special costs associated with Vietnam will add $4.7 billion in fiscal year 1966 expenditures over the amount originally estimated in the budget for that year presented in January 1965 and an additional $5.8 billion, for a total of $10.5 billion in fiscal year 1967.

The increased cost of Vietnam with its economic and psychological uncertainties came at a time when the success of a balanced and expansionary mix of fiscal and monetary policies, combined with wise practices in a

dynamic private sector, had brought the Nation close to the achievement of many of its most important economic goals -- a healthy rate of growth (the highest of any of the larger industrialized nations) in a full employment economy with a balanced budget, accompanied by price stability unparalleled in the industrialized world, and an equilibrium in our balance of payments.

Past tax reduction actions of the Congress, recommended or approved by this Committee -- the investment credit in the Revenue Act of 1962, the tax reduction program in the Revenue Act of 1964, the Excise Tax Reduction Act of 1965, and the administrative depreciation reforms of 1962 and 1965 -- made a signal contribution to this achievement.

Despite tax reductions that have cut the burden of taxes by some $20 billion at this year's income levels, revenues under present law will be $21 billion higher in fiscal year 1966 than they were in fiscal year 1961. This contrasts with a growth in receipts of only $10 billion in the five years preceding 1961, a period in which there was no significant tax reduction.

Our fiscal policy has been successful. Had our defense commitments remained unchanged, the rise in receipts without the current tax bill would have produced a budget surplus in fiscal year 1967 with room for increases in Federal civilian expenditures or further tax reductions or debt retirement.

In this situation we face the current problem of meeting the added costs of our Southeast Asia operations. We are better prepared to meet these costs because of the 25 percent increase in real GNP in the last five years. We must recognize, however, that new problems call for new solutions.

The immediate response of this Administration to the problem presented by the increased Vietnam expenditures in a nation nearing full employment was a maximum of economy in the preparation of budget expenditure proposals, consistent with recognition of clear international and domestic needs. Elimination of unnecessary activities and the reduction in the cost of continuing activities were pursued ruthlessly.

There was still a dilemma which President Johnson clearly described in a letter of January 19 addressed to Chairmen Long and Mills as coming down to three choices:

"-- A deficit in excess of $6.5 billion, which would require the Government to borrow the additional money.

-- An increase in corporate and personal income tax rates, or other new taxes.

-- Temporary restoration of certain excise taxes, and adoption of graduated withholding of individual income taxes and current payment of corporate income taxes -- to put the American people on a pay-as-you-go basis without increasing the total tax bill due."

In the President's words, "First, we could raise revenue or borrow it. I chose to raise the money." This decision recognizes that our fiscal policy over the last five years has substantially reduced the level of unused plant capacity and unused worker skills. With the Vietnam commitment superimposed on the robust private demands, a moderate and balanced shift away from the stimulative policy of the last five years is called for.

In the light of the uncertainty about the duration of the increased expenditures for Vietnam, a solution which involves predominantly temporary and passing changes largely in the timing of tax payments without increasing

income tax fiscal liabilities is a first preference to increasing personal and corporate income tax liabilities. This makes the last of the Presidentially stated alternatives clearly preferable.

On the need for this bill, let me re-emphasize first my point that for the most part the provisions of H.R. 12752 represent structural improvements in the tax law and the increased receipts are primarily associated with the transition. This means that it involves less of a burden than one would normally associate with an increase of revenues of $4 billion in one fiscal year. Nevertheless, could even this be avoided by expenditure cuts?

First as to timing, the bill in part is intended to deal with the budget problem in fiscal year 1966. These expenditures are based on programs that have been voted and are in operation. They cannot be cut back materially. We need the bill to reduce the deficit in fiscal year 1966 by $1.2 billion.

In assessing expenditure reduction possibilities for fiscal year 1967 as a substitute for this bill, it should be noted that the 1967 budget provides for an increase of only $600 million over the expenditure levels in the non-Vietnam sector of the 1966 budget. Moreover, this minor increase in expenditures, apart from the requirements of Vietnam, comes after several years in which expenditure totals in the administrative budget have been held down.

This requires a summary examination of the record on expenditure control under President Johnson which is set forth on Chart 1 attached to my statement.

1. He cut the original estimated expenditure level of $98.8 billion for fiscal year 1964 by $1.1 billion to an actual $97.7 billion.

2. He cut the original estimated expenditure level of $97.9 billion for fiscal year 1965 -- ending last June 30 -- by $1.4 billion to an actual $96.5 billion.

3. The expenditure target for fiscal year 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 $288 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 program and $462 million under the Commodity Credit Program. All of these increases more than wiped out economies realized since the original budget estimate for fiscal year 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.

The program that we are urging meets the immediate and clearly foreseen needs, but this does not foreclose future dealing with longer run problems or new developments. The President in his letter stated further:

> "If our needs in Vietnam require additional revenues, I will not hesitate to request them. On the other hand, if our efforts for a peaceful resolution of the Vietnam situation are successful -- and those efforts will continue day and night -- then your Government's need for revenues will be sharply reduced, thus permitting downward tax revisions as we had following Korea."

In his Budget Message, he clearly committed himself to recommend additional measures in either of two contingencies. He said:

> "If, on the other hand, events in Southeast Asia so develop that additional funds are required, I will not hesitate to request the necessary sums. And should that contingency arise, or should unforeseen inflationary pressures develop, I will propose such fiscal actions as are appropriate to maintain economic stability."

Insofar as inflationary pressures are concerned, the President stated his position concerning these tax proposals as recently as January 27 in his Economic Message saying:

> "To insure against the risk of inflationary pressures, I have asked Americans to pay their taxes on a more nearly current basis, and to postpone a scheduled tax cut. If it should turn out that additional insurance is needed, then I am convinced that we should levy higher taxes rather than accept inflation -- which is the most unjust and capricious form of taxation."

Taxation is an effective and flexible instrument of economic policy. It can be adapted to the needs of the present circumstances without changing basic policies already incorporated in our tax law.

The tax changes in H.R. 12752 will:

-- balance the cash budget.

-- reduce the deficit in the administrative budget to the lowest level in seven years.

-- help maintain economic growth and reduce the risks of inflation.

The specific sources of increased budget receipts under H.R. 12752 for fiscal years 1966 and 1967 are shown in the following table:

(In Millions of Dollars)

	FY 1966	FY 1967
Excises:		
Communication	--	$ 785
Automobiles	$ 60	420
Total excises	60	1,205
Corporate speed-up	1,000	3,200
Graduated withholding	95	210 1/
Increase in declaration requirement under individual income tax from 70 to 80 percent	--	150
Total, administrative budget	1,155	4,765 1/
Self-employment tax, social security, quarterly payments (goes into a trust fund)	--	200
Total, cash budget	1,155	4,965 1/

1/ Prior to the House floor amendment, the gain in fiscal year 1967 from graduated withholding was $275 million; the total administrative budget was $4,830 million; and the total cash budget was $4,965 million. The floor amendment reduced each figure by $65 million.

EXCISE TAXES

H.R. 12752 would restore promptly the 7 percent rate of the manufacturers excise tax on automobiles, which was reduced to 6 percent on January 1, 1966, and the 10 percent tax rate on local and long distance telephone and teletypewriter service, which fell to 3 percent the same date. The automobile tax would be restored on the day after enactment, and the telephone tax would be restored for bills rendered on and after the first day of the first month beginning more than 15 days after the legislation is enacted. Those pre-January 1 rates would remain in effect until April 1, 1968, when they would revert to the level that would prevail at that time under present law, that is, 2 percent on the automobile tax and 1 percent on the telephone tax.

The question arises naturally, why are the rates restored on these two excises only? Why not restore some of the taxes that were repealed last June or last December?

Part of the answer to this question is that in the Excise Tax Reduction Act of 1965 it was recognized that these two taxes involved such large amounts of revenue that their ultimate reduction had to be scheduled gradually in the light of economic and budget conditions. Another way of saying the same thing is to point out that a large number of excise taxes would have to be restored to match the revenue involved in the continuation of the automobile and telephone excises.

Another reason for this particular excise tax program is that the restoring of taxes that have been completely repealed in contrast to continuing taxes still being levied would impose substantial compliance and administrative burdens. The whole series of accounting and reporting procedures associated with payment of the taxes which disappeared when the taxes were repealed would have to be reconstituted. With regard to the automobile and telephone taxes, however, only a change in rate is involved -- not a restoration of an entire tax. No additional accounting and reporting are involved, and there is no reintroduction of the compliance and administrative difficulties involved in the various smaller taxes. Nor is there a reintroduction of all the competitive and other distortions that were involved in the various selective excise taxes that were repealed in 1965.

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.

A floor stocks tax of 1 percent would be imposed on all new automobiles held in stock by dealers or distributors on the day the 7 percent rate becomes effective. Under the bill, this tax is to be paid by the dealer, but it is to be collected by the manufacturer and paid over by it to the Treasury. This procedure, which parallels that for the floor stocks refunds under this tax, was chosen in the House bill to assure that the dealers will have the correct information as to the tax base for the cars affected.

If the legislation is enacted by March 15, 1966, excise tax 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.

The bill differs somewhat from the Administration recommendations as to the period after 1967. We had proposed that the whole schedule of automatic reductions of the automobile and telephone taxes beginning with the January 1, 1966 reductions be moved later by two years so that the reductions previously scheduled for January 1, 1966 through January 1, 1969 would take place instead from January 1, 1968 to January 1, 1971.

Under H.R. 12752, the restored rates would be carried to April 1, 1968, and then the rates would revert to the level that they would have been on that date under present law, that is, 2 percent on the automobile tax and 1 percent on the telephone tax. The final reduction of these taxes to 1 percent and zero, respectively, would take place on January 1, 1969. H.R. 12752 would provide as much revenue from the excise provisions as the Administration proposal in fiscal years 1966 and 1967, just slightly more in fiscal year 1968, and less in fiscal years 1969 and 1970. We have no objection to the method of treatment in H.R. 12752

for these excise tax rates on automobiles and telephones after the temporary postponement period is ended.

GRADUATED WITHHOLDING

A most important part of the Administration program as well as H.R. 12752 is the provision for graduated withholding.

In evaluating these withholding changes, it is important to note 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.

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. A withholding system should not, of course, seek to create unnecessary overwithholding. But as a practical matter, taxpayers with the same amount of wages will very often differ in other respects. A withholding rate that would cause overwithholding for one taxpayer would therefore underwithhold on the other. Thus a taxpayer might have income from nonwage sources that is not subject to withholding; or have actual deductions that are more or less than the assumption used in the withholding system; or the taxpayer may not be employed continuously during the year. All of these factors -- and others -- affect the

amount of his final tax liability and thus the relationship between the amounts withheld and that liability.

Under the present law, a flat 14 percent of an employee's earnings is withheld for income tax purposes, while final tax liability is computed under a series of graduated rates. Consequently, many taxpayers are faced with large, and frequently unanticipated, unpaid tax liabilities at the end of the year. The burden to taxpayers of these year-end payments, as well as the collection problems imposed on the Internal Revenue Service, warrants a system of withholding from wages on a graduated basis that will more effectively synchronize withholding with actual tax liability.

Moreover, the present withholding system takes into account the 10 percent standard deduction, but not the minimum standard deduction added by the Revenue Act of 1964. This omission results in overwithholding for many low-income employees. Additional overwithholding occurs under the present system for single employees with taxable incomes of less than $2,000 and married employees with taxable incomes of less than $4,000. This results from the use of a flat withholding rate which is an average of the rates for the first four income tax brackets, adjusted for the 10 percent standard deduction.

The basic graduated withholding system in H.R. 12752 is designed to minimize these problems.

(1) First, in place of the present flat 14 percent withholding rate, the proposed system would provide for withholding at six graduated

rates ranging from 14 percent to 30 percent. This would closely relate the amount of withheld tax with the actual tax due for single people with taxable income up to $12,000 and for married couples with taxable income up to $24,000, whose deductions are approximately 10 percent of income. For people above this income level with deductions of approximately 10 percent of income, withheld and actual taxes would be more closely related than under the present system.

(2) Second, the minimum standard deduction would be reflected in the new withholding system through an increase to $700 in the value of the personal exemptions for withholding purposes, and through a zero withholding rate on $200 of wages on an annual basis. This change would appreciably reduce overwithholding for those employees who use the minimum standard deduction. The use of the minimum standard deduction in combination with graduated rates would also eliminate the overwithholding that presently exists in the first four income tax brackets.

The six rate graduated system, proposed in the Administration program and adopted in H.R. 12752, is designed to produce the correct amount of withholding for an individual whose deductions were either the standard deduction, including the minimum standard deduction, or 10 percent of his wage income, whichever was the larger, who had no nonwage income, and who worked a full year. If a taxpayer has no nonwage income, and has itemized deductions in excess of the standard deduction or 10 percent of his wage income, it is quite likely that there would be some overwithholding under the Administration proposal.

While modest overwithholding is not a significant hardship for the wage or salary earner, there could be cases of large overwithholding both under present law and under the basic graduated withholding system. The basic graduated system by itself would in many cases tend to aggravate the situations of large overwithholding. For this reason, a provision was added to the bill in the Ways and Means Committee that would make it possible for individuals, who would expect to be overwithheld due to high itemized deductions, to avoid or minimize large overwithholding by claiming additional withholding allowances. The withholding system heretofore has permitted each taxpayer to declare to his employer the number of income tax exemptions to which he is entitled, for himself and his dependents. These are taken into account in the graduated withholding formula and in the withholding tables, through permitting the taxpayer to earn free of withholding $700 (on an annual basis) for each exemption to which he is entitled. H.R. 12752 would simply expand this technique to deal with employees with high itemized deductions by affording additional withholding allowances (in $700 multiples) because of those deductions.

Specifically, H.R. 12752 permits the taxpayer to state his estimated deductions for the current year. These cannot exceed his actual itemized deductions for the previous year. He can also put down his estimated salary or wages for the current year, which cannot be less than his salary or wages for the previous year. These ceiling and floor limitations are necessary to prevent serious abuse of the new allowance. H.R. 12752

then allows the taxpayer to compute his excess deductions, that is, his deductions in excess of a base line which is made up of 12 percent of the first $7,500 of his salary or wages and 17 percent of the balance. The taxpayer is given an additional withholding allowance for each full $700 by which the excess deductions exceed the base line. Under an amendment added on the House floor, the taxpayer would be allowed the first additional withholding allowance if his excess deductions were equal to at least $350.

As respects the operation of this additional allowance system, the employer would treat these claims for additional withholding allowances in exactly the same way as a claim for additional exemptions, so basically the procedure will not complicate the withholding system for employers. So far as employees are concerned, the provision for extra withholding allowances does involve some complication. It is, of course, optional with the employee whether or not he wants to claim an additional allowance. But an option itself is a complexity since a taxpayer may feel he ought to find out what it is before he decides whether or not to use it. Because of this complexity, it is the course of wisdom to use this technique initially to deal only with the relatively large overwithholding situations. This is the reason for the particular decision in H.R. 12752 to measure excess deductions over a base line which is higher than the 10 percent of deductions built into the withholding system. We believe that the basic technique of additional allowances which the Ways and Means

Committee adopted is appropriate to moderate overwithholding where it may be too large. However, there are problems associated with the variation in that technique introduced by a Committee floor amendment which we will be glad to discuss in your technical sessions. That variation involves added complexity, and also produces underwithholding in some situations.

The additional allowance system would be applicable for the first time in 1967. Taxpayers would file claims for additional withholding allowances with their employers on the basis of their estimates for 1967 and their actual tax returns for 1966. The new withholding allowances would go into effect in the spring of 1967. Thereafter the taxpayer would continue to use the additional withholding allowance until May 1, 1968, although it could be terminated at his option earlier. The taxpayer could file another claim for additional withholding allowances on the basis of his 1967 return, which would take effect May 1, 1968.

This timing is necessary in order to develop the required forms and to provide the necessary information program, so that people will know how to operate the system. Also important is the fact that graduated withholding would start only in May of this year and hence overall overwithholding will not be as significant in 1966 as it would be if the six graduated rates were in effect for a full year. The additional allowance provision will thus not affect the expected increase of $90 million in budget receipts from the introduction of

graduated withholding as proposed in the Administration program for fiscal year 1966. It would also have no impact on the calendar year 1966 effect of graduated withholding. Thus it will not reduce the short-term economic impact of the adoption of graduated withholding.

Under the House bill the net increase in budget receipts in the fiscal year 1967, from the adoption of graduated withholding is estimated to be $210 million. Due to the additional withholding allowance under H.R. 12752, there would be a decline in budget receipts in the fiscal year 1968 estimated at $290 million.

To describe the economic impact of the whole withholding provision, it is useful to use calendar year totals. In round numbers, the graduated withholding provision in the six rate system would have involved an increase in withholding on a full year basis of $1.2 billion. Because of the date of introduction, the increase in withholding receipts will be only $0.8 billion in 1966 (although it will be at an annual rate of $1.2 billion).

In calendar year 1967, the increase in withholding receipts from the six rate system will be offset by two things: (1) the smaller year-end payments on 1966 returns filed in the spring of 1967 as people take credit for the prior year additional withholding and (2) the beginning of the additional allowance system by May.

INDIVIDUAL ESTIMATED TAX

H.R. 12752 adds a provision, which originated in the Ways and Means Committee, which would modify the monetary penalty provision with respect to payments of individual estimated tax on declarations. Under

present law, a taxpayer who is required to file a declaration of estimated tax is subject to a monetary penalty of 6 percent per annum for underpayment of estimated tax unless his estimated tax meets one of five alternative tests. Three of the tests remain unchanged. These are that the estimated tax must be at least as high as the tax paid last year or at least as high as the tax that would be paid on the basis of last year's income and this year's tax rates or at least 90 percent of the tax liability based on the actual taxable income to date. If the taxpayer does not meet these tests with his estimated tax, he may under present law still avoid the penalty if his estimate is at least 70 percent of his final tax liability or 70 percent of the tax liability that would emerge if he annualized the income that he has earned to date. Annualizing means multiplying the income of the first quarter by four, or multiplying the income of the first half year by two, or multiplying the income of the first three quarters by one and one-third.

Under H.R. 12752, the 70 percent provision, which relates to the actual tax liability or the annualized tax liability, is changed to 80 percent. The requirement was originally set in 1943 at 80 percent and was reduced to 70 percent in 1954. At a time when we are, by graduated withholding, making most wage earners more current with respect to their payment of tax liability, it is reasonable to ask that people with nonwage income also pay an estimated tax which is closer to their final tax liability.

The 80 percent requirement on estimates of individual tax would come into effect with respect to estimates filed in the calendar year 1967. It is expected that this would increase budgetary receipts in fiscal year 1967 by $150 million and in fiscal year 1968 by $150 million.

CORPORATE ACCELERATION OF CURRENT TAX PAYMENTS

The provision for acceleration of corporate tax payments is the same in H.R. 12752 as it was proposed by the Administration. This change 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 required these corporations to begin 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. Under H.R. 12752 these figures would be raised to 12 percent in 1966 and to the permanent level of 25 percent in 1967.

The only change from present law 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 current 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.

At a time when we are close to full employment and full utilization of capacity, 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.

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 accommodated. The tightness in the credit markets that already exists would reinforce the effectiveness on business expenditures of the accelerated payment proposal.

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 (including fiscal year corporations).

SELF-EMPLOYMENT TAXES

To round out the program to make tax-paying more current, H.R. 12752 provides 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 for the entire liability to be 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.

H.R. 12752 provides that the requirement for current payment of self-employment tax would come into operation in 1967, starting April 15.

Under H.R. 12752, this provision would increase revenue collections in fiscal year 1967 by $200 million. Under the original proposal, which would have commenced the current payment system on June 15 of this year, this increase would have occurred as follows: $100 million in fiscal year 1966 and $100 million in fiscal year 1967.

We will develop a procedure for crediting the estimated quarterly declaration payments of self-employment tax to the Social Security Trust Fund as these payments come into the Treasury. For this reason the provision will affect only cash budget receipts and not administrative budget receipts. Under H.R. 12752, these increased payments would be $300 million in calendar year 1967 ($400 million if the January 15, 1968 payment is included).

CONCLUSION

The particular measures involved in H.R. 12752 are designed to have minimum long-range impact on tax burdens and to achieve desirable structural changes. They are appropriate to the fiscal problem at hand. 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.

Attachments

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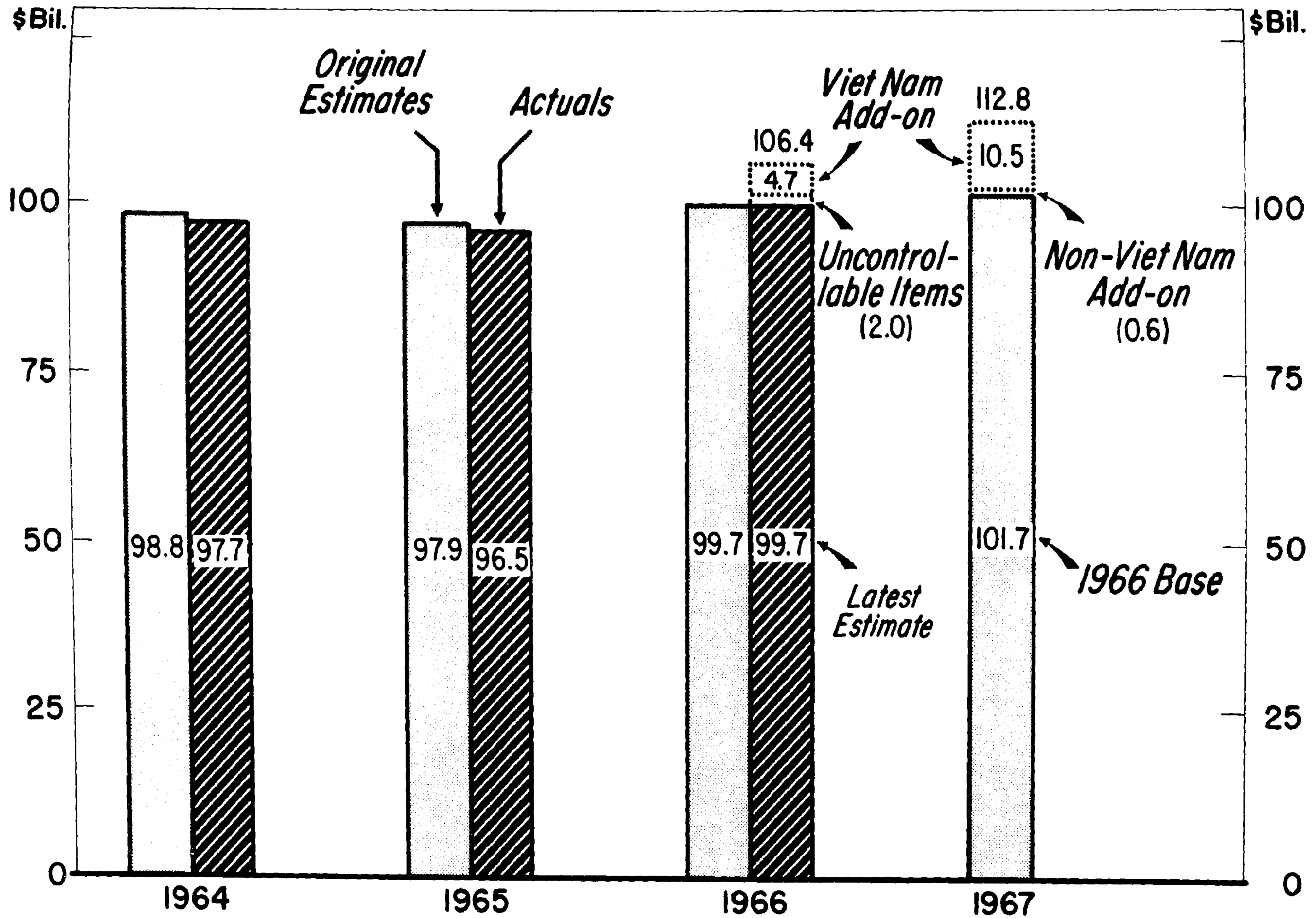


CHART 1

Office of the Secretary of the Treasury

B-1518-1

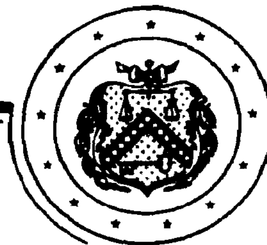
Explanation of Chart 1

The increase of $0.6 billion in budget expenditures, outside of special Vietnam costs, between 1966 and 1967, reflects many increases and decreases. For example, the 1967 budget provides for $5.3 billion of expenditure increases. These increases include (1) $3.2 billion for Great Society programs, primarily in education, health, and the war on poverty; (2) $0.8 billion for higher interest costs and $.4 billion for the added costs over 1966 of the military and civilian employee pay raises enacted last October; and (3) $1 billion for other unavoidable workload and contractual commitments, such as expenditures for construction projects started in earlier years.

Against these increases there are reduction of $4.7 billion included in the 1967 budget. These consist partly of (1) $1.6 billion in defense activities excluding the added Vietnam costs and (2) $1.5 billion in savings through pruning lower priority programs, management improvements, and the nonrecurrence of certain costs. The remaining $1.6 billion reduction stems from increased sales of mortgages and other financial assets or conversion of direct Federal loans to guaranteed private loans -- the substitution of private for public credit.

Former Budget Director Maurice Stans has estimated that nondefense expenditures can be expected to rise by $2 to $2-1/2 billion each year due to the growing workloads which accompany increasing population and incomes. A net increase of only $0.6 billion in fiscal 1967, therefore indicates extraordinary stringency.

TREASURY DEPARTMENT



WASHINGTON, D.C.

February 25, 1966

FOR RELEASE A.M. NEWSPAPERS
SATURDAY, FEBRUARY 26, 1966

REGIONAL COMMISSIONERS AND DISTRICT DIRECTORS
APPOINTED FOR CHICAGO CUSTOMS REGION

Assistant Secretary of the Treasury True Davis today announced the appointment of Fred R. Boyett, Washington, D. C., a career Customs official, as Regional Commissioner of Customs for the new Chicago Customs Region IX.

Mr. Davis also announced the appointment of James W. Polk, Acting Collector at Buffalo and Rochester, N.Y., as Assistant Regional Commissioner (Operations), and Arthur R. Adams, Assistant Collector at Chicago, as Assistant Regional Commissioner (Administration).

The appointments -- together with those of eight Customs District Directors, also announced today -- will be effective Tuesday, March 1, with the activation of the Chicago Customs Region.

The Customs District Directors for the new region are:

Chicago Customs District - Heinz L. Herz of Chicago.
Cleveland Customs District - John F. Kovacic of Cleveland, Ohio.
Detroit Customs District - Louis A. Mezzano of Detroit, Michigan.
Duluth Customs District - Clarence L. Bingham of Duluth, Minnesota.
Milwaukee Customs District - Walter P. Turek of Louisville, Kentucky.
Minneapolis Customs District - Mrs. Marjorie Maki of Minneapolis, Minnesota.
Pembina Customs District - Corwin S. Snyder of Pembina, North Dakota.
St. Louis Customs District - Joseph P. Garrity of St. Louis, Missouri.

F-391

The appointments were made as part of the President's Reorganization Plan No. 1 of 1965, which was sent to Congress last March and became effective on May 26, 1965. It called for the elimination of 53 Customs positions throughout the U. S. which were previously filled by Presidential appointment. The Reorganization Plan placed the 176-year-old Customs Service wholly on a career basis.

Chicago will be the fifth region to be activated in accordance with the year-long timetable. Regions already activated are: San Francisco, November 1, 1965; Los Angeles, January 1, 1966; Miami and Houston, February 1, 1966. The remaining four regions are scheduled as follows: Baltimore -- April; Houston and Boston -- May; and New York -- June.

Offices of the Chicago regional headquarters will be in the Brunswick Building at 623 South Wabash Avenue, Chicago.

United States Commissioner of Customs Lester D. Johnson heads the Bureau of Customs, which is part of the Treasury Department. His offices are in Washington, D. C.

Biographies follow.

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BIOGRAPHICAL SKETCH OF FRED R. BOYETT

FRED R. BOYETT was born near Mart, Texas, on August 26, 1930. e received a bachelor's degree in accounting from Rice Institute 1 1951 and also attended Texas University and Wayne University, etroit.

Mr. Boyett joined the Customs Service in 1952 as an examiner's id. He served as appraiser in Sault Ste. Marie, Michigan, and ne examiner in Detroit.

In 1959 he was promoted to liaison officer at the Bureau of istoms headquarters in Washington, and later became a specialist in praisement.

Mr. Boyett became Assistant Deputy Commissioner, Division of praisement Administration, in 1963.

He and Mrs. Boyett reside with their five children at 11005 eeler Drive, Silver Spring, Maryland.

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BIOGRAPHICAL SKETCH OF JAMES W. POLK

JAMES W. POLK was born in Fort Worth, Texas, on June 13, 1916, 1 attented Texas Wesleyan College.

Mr. Polk's Government career began in 1940 as a messenger. ing World War II he saw action in the South Pacific in the nter Intelligence Corps of the Army. After the war, Mr. Polk oined the Customs Bureau and was promoted to Customs Patrol pector in Arizona.

In 1948 he was reassigned as Customs Inspector at Sasabe, Arizona. 1950, Mr. Polk was promoted to Customs Agent in New York. In 1 he was reassigned to Buffalo, New York, becoming Customs Agent Charge at that port three years later.

From 1957 to 1959 Mr. Polk served as Senior Customs Representa- in Hong Kong. In 1958 he was named adviser at a United Nations erence in Bangkok, Thailand. The following year he was signed to Bureau headquarters in Washington, D. C. Later the year he was promoted to Acting Collector in Buffalo, New York.

Mr. and Mrs. Polk reside at 334 Summer Street, Buffalo, New York.

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BIOGRAPHICAL SKETCH OF ARTHUR R. ADAMS

ARTHUR R. ADAMS was born in Benton Harbor, Michigan on September 2, 1910. He joined the Federal Government in 1938 as an inspector with the Customs Service in Port Huron, Michigan.

From 1943 to 1945, he served with the Army in the European theater.

Mr. Adams returned to the Customs Service in 1945 and was promoted to Customs Agent at Chicago in 1947. He subsequently served two years as Deputy Collector (Entry) in the Chicago District, and in 1953 was promoted to Supervisory Customs Entry and Liquidating Officer.

In 1964 he was promoted to Assistant Collector for Chicago, Illinois.

He and his wife live at 10932 South Green Street, Chicago, Illinois.

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BIOGRAPHICAL SKETCH OF HEINZ L. HERZ

HEINZ L. HERZ was born in Germany on June 19, 1925. He eceived his bachelor of science degree in mechanical and ndustrial engineering from Wayne University, Detroit, Michigan, n 1949.

Mr. Herz entered the Customs Service in 1950 as an examining id in Detroit, Michigan.

During World War II, Mr. Herz served as an infantryman in he U. S. Army in Europe. He won two Bronze Stars for action in rance and Germany. He was captured in action in January 1945 nd was a prisoner of war until the German surrender.

From 1953 to 1955 Mr. Herz was a Customs Examiner in Houston, xas. He served as Customs Representative in Frankfurt am Main, rmany, and later in London, England. In 1962 he became Senior stoms Representative in London.

Mr. Herz was promoted to Assistant Supervising Customs Agent in Chicago, Illinois, in 1964.

He and his wife live at 1445 Executive Lane, Glenview, Illinois.

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BIOGRAPHICAL SKETCH OF JOHN F. KOVACIC

JOHN F. KOVACIC was born in Cleveland on March 19, 1907 and attended the John Huntington Polytechnic Institute Evening School there.

Mr. Kovacic was in the insurance business, serving as Assistant District Manager for a life insurance firm until 1961, when he was named Collector of Customs in Cleveland. He served on the Cleveland City Council from 1953 to 1961.

Mr. Kovacic is active in civic, educational and business organizations. He organized the St. Clair Businessmen's Association and the Norwood Community Area Council, and has received several awards of merit for civic activities.

Mr. and Mrs. Kovacic live at 7416 Donald Avenue in Cleveland.

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BIOGRAPHICAL SKETCH OF LOUIS A. MEZZANO

LOUIS A. MEZZANO was born in Wakefield, Michigan,on June 21, 1918. He has been Collector of Customs in Detroit since 1961.

Mr. Mezzano served on the Wakefield City Commission from 1942 to 1948,and from 1945 to 1960 he was a member of the Michigan House of Representatives.

Mr. and Mrs. Mezzano reside at 901 Pierce Street, Wakefield, Michigan. They have four daughters.

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BIOGRAPHICAL SKETCH OF CLARENCE L. BINGHAM

CLARENCE L. BINGHAM was born in Exeland, Wisconsin on July 9, 1928. He studied at the University of Wisconsin and the University of Minnesota. He served in the U.S. Marine Corps and was a member of the Marine Corps Reserve.

Before entering the Customs Service in 1949 as a clerk in the Collector's office at Pembina, North Dakota, Mr. Bingham spent a year as a customs broker in Noyes, Minnesota.

In 1953 he was promoted to Customs Agent, and in 1960 he became Assistant Collector of Customs for Duluth.

Mr. and Mrs. Bingham, reside at 5731 Junita Street, Duluth, Minnesota.

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BIOGRAPHICAL SKETCH OF WALTER P. TUREK

WALTER P. TUREK was born in Bridgeport, Connecticut on lovember 13, 1922. He received a B.A. degree in sociology and olitical science from the University of Bridgeport and has done raduate work in education.

Mr. Turek was on active duty with the U.S.Marine Corps for hree years during World War II and one year during the Korean onflict.

Mr. Turek began his career in Customs as an examiner in Boston n 1959, and subsequently worked in New York, Bridgeport and Duluth. n 1963 he was promoted to Appraiser of Merchandise in Louisville, entucky.

Mr. and Mrs. Turek live at 3113 Mylanta Place, Louisville, ntucky.

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BIOGRAPHICAL SKETCH OF MRS. MARJORIE MAKI

MRS. MARJORIE MAKI was born in St. Paul, Minn. and received a B.A. degree in political science in 1943 from Macalester College in St. Paul.

Before her marriage to A. V. Maki, a city official in St. Paul, Mrs. Maki worked as a police and city hall reporter for the Duluth Herald and News Tribune. For several years she was employed as a reporter-photographer for the Associated Press, and later was district information officer for the Office of Price Stabilization.

Mrs. Maki has been active in civic and community work. She served on the Mayor's special tax research committee in Duluth, and she was appointed to the Twin Cities Metropolitan Planning Commission, which she later served as secretary-treasurer and legislative chairman.

Mr. and Mrs. Maki live at 2302 North Seventh Street, North St. Paul, Minn.

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BIOGRAPHICAL SKETCH OF CORWIN S. SNYDER

CORWIN S. SNYDER was born in Osceola, Nebraska on November 11, 1911. He has a bachelor's degree in industrial education from the University of North Dakota, and attended Boone Jr. College Boone, Iowa, the University of Minnesota, and Ohio State University.

Mr. Snyder, after a career as a college and high school teacher, was appointed Collector of Customs for Pembina, North Dakota in 1961.

Mr. Snyder is president of the Pembina Community Club and a member of the Pembina Economic Development Committee.

He and his wife reside in Pembina.

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BIOGRAPHICAL SKETCH OF JOSEPH P. GARRITY

JOSEPH P. GARRITY was born in Patton, Penna., November 16, 1919. He was educated in the public schools in Patton, and received an LLB Degree from LaSalle Extension University in Chicago.

Mr. Garrity began his career with the Customs Service in 1941, serving for seven years as an inspector until he became an examiner in Norfolk, Virginia. In 1955 he transferred to St. Louis, Mo. where he has served as an appraiser until the present time.

Mr. and Mrs. Garrity reside at 6603 Bartmer Ave., University City, Mo.

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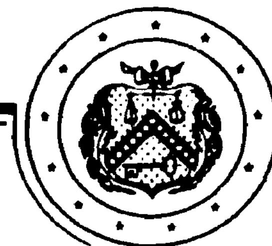
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, February 28, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, series to be an additional issue of the bills dated December 2, 1965, and the other ies to be dated March 3, 1966, which were offered on February 23, 1966, were opened at Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing June 2, 1966		:	182-day Treasury bills maturing September 1, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.825 a/	4.648%	:	97.547	4.852%
Low	98.820	4.668%	:	97.540	4.866%
Average	98.822	4.661% 1/	:	97.542	4.861% 1/

a/ Excepting 1 tender of $1,000

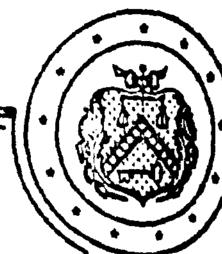
57% of the amount of 91-day bills bid for at the low price was accepted
82% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 24,675,000	$ 12,675,000	:	$ 22,730,000	$ 11,830,000
w York	1,594,201,000	881,412,000	:	1,355,675,000	666,195,000
iladelphia	31,119,000	14,119,000	:	19,123,000	6,123,000
eveland	25,674,000	25,545,000	:	48,074,000	45,003,000
chmond	10,998,000	10,998,000	:	9,711,000	9,171,000
lanta	49,682,000	31,500,000	:	36,530,000	14,451,000
icago	290,356,000	158,714,000	:	298,177,000	110,793,000
. Louis	55,585,000	31,563,000	:	27,575,000	10,421,000
nneapolis	19,949,000	13,589,000	:	9,879,000	6,789,000
nsas City	23,848,000	21,828,000	:	15,388,000	13,892,000
llas	25,786,000	14,356,000	:	14,240,000	10,060,000
n Francisco	191,007,000	85,093,000	:	191,962,000	96,759,000
TOTALS	$2,342,880,000	$1,301,392,000 b/		$2,049,064,000	$1,001,487,000 c/

ncludes $244,282,000 noncompetitive tenders accepted at the average price of 98.822
ncludes $118,221,000 noncompetitive tenders accepted at the average price of 97.542
nese rates are on a bank discount basis. The equivalent coupon issue yields are .78% for the 91-day bills, and 5.05% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, February 28, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury b one series to be an additional issue of the bills dated December 2, 1965, and the ot series to be dated March 3, 1966, which were offered on February 23, 1966, were open the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or therea of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The detai the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing June 2, 1966		182-day Treasury bills maturing September 1, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Eq Annual Rate
High	98.825 a/	4.648%	97.547	4.852%
Low	98.820	4.668%	97.540	4.866%
Average	98.822	4.661% 1/	97.542	4.861% 1/

a/ Excepting 1 tender of $1,000

57% of the amount of 91-day bills bid for at the low price was accepted
82% 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	$ 24,675,000	$ 12,675,000	$ 22,730,000	$ 11,
New York	1,594,201,000	881,412,000	1,355,675,000	666,
Philadelphia	31,119,000	14,119,000	19,123,000	6,
Cleveland	25,674,000	25,545,000	48,074,000	45,
Richmond	10,998,000	10,998,000	9,711,000	9,
Atlanta	49,682,000	31,500,000	36,530,000	14,
Chicago	290,356,000	158,714,000	298,177,000	110,
St. Louis	55,585,000	31,563,000	27,575,000	10,
Minneapolis	19,949,000	13,589,000	9,879,000	6,
Kansas City	23,848,000	21,828,000	15,388,000	13
Dallas	25,786,000	14,356,000	14,240,000	10
San Francisco	191,007,000	85,093,000	191,962,000	96,
TOTALS	$2,342,880,000	$1,301,392,000 b/	$2,049,064,000	$1,001,

b/ Includes $244,282,000 noncompetitive tenders accepted at the average price of
c/ Includes $118,221,000 noncompetitive tenders accepted at the average price of
1/ These rates are on a bank discount basis. The equivalent coupon issue yield 4.78% for the 91-day bills, and 5.05% for the 182-day bills.

STATEMENT OF FRED BURTON SMITH,
ACTING GENERAL COUNSEL, U. S. TREASURY DEPARTMENT,
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS,
ON H. R. 12676, H. R. 12677, H. R. 12678, and H. R. 12768.

March 1, 1966

Mr. Chairman and Members of the Committee:

I appear before your Committee in support of the Administration's proposal to suspend temporarily the duty on imports of copper raw materials, including copper scrap. This proposal is part of the Administration's four-step program on copper announced by Secretary of Defense McNamara on November 17, 1965. In announcing this program, Secretary McNamara stated:

"Our greatly increased defense efforts in Vietnam and recent international political disturbances threaten both to disrupt and to distort the market for copper despite the best efforts of our American copper industry to supply that market.

"This market disruption can lead to strong inflationary pressures, not only in copper essential to defense needs but also more generally throughout our economy. Such developments would seriously impair our defense efforts in Vietnam. * * *"

The four-step program, designed to maximize the supply of copper at home, stabilize the domestic copper market and thus to maintain a noninflationary price level for copper, was as follows:

Step One was the orderly release of 200,000 short tons of copper from the national stockpile. This has been done.

Step Two called for discussions with the directors of the New York

Commodity Exchange for the purpose of securing checks on excessive speculation in copper trading. As a result of these discussions, the New York Commodity Exchange has raised margin requirements for trading in copper.

Step Three was the invocation of export controls on copper as of November 18, 1965. Formal regulations tightening controls over the flow of copper out of the United States were issued later the same month and on January 20, 1966, an export quota of 25,000 short tons was placed on virtually all types of domestic-origin copper.

Step Four is the legislation now before this Committee and Congress to suspend temporarily the import duty on copper raw materials.

Copper is a metal of vital importance to our domestic economy. It is, at the present time, in short supply in the United States and in the world at large. The consumption of refined copper in the United States has been rising steadily since 1961. In 1965, the ratio of military requirements to the total for all purposes was about 4 percent. This ratio is expected to double and it may possibly treble in 1966. Our commitments in Viet Nam, coupled with the growing needs of our civilian economy, will create a very tight copper supply situation in 1966.

The shortage of copper has been reflected in pressures on the price of copper both at home and abroad. The U. S. producers' price for refined copper, which until March 1964 had remained constant at 31 cents a pound for almost three years, experienced three increases in the space of a little more than one year, going from 31 cents to 32 cents to 34 cents and finally to 36 cents per pound in May, 1965. The producers' price

in other countries not only followed price developments in the United States, but has increased to a level of 42 cents a pound.

In 1966, it is expected that the copper supply situation will continue to be critical with estimated domestic consumption of copper amounting to 2.37 million short tons, roughly 330,000 tons greater than in 1965. Domestic production is expected to continue to increase in 1966, and we are hopeful that imports will increase over 1965 levels. Our imports of unmanufactured copper come principally from Chile, Peru and Canada, with net imports in 1965 amounting to about 8 percent of our new supply of copper.

The tariff items principally covered by this bill are now subject to a duty rate of 1.7 cents per pound. Suspension of the duty will reduce the cost of foreign copper to U. S. consumers by an equivalent amount, thereby contributing to our efforts to hold the price line in the United States. I would note, in passing, that the import duty on unmanufactured copper was suspended by legislation from April 30, 1947 to June 30, 1950 and again from April 1, 1951 to June 30, 1958 when the available supply was insufficient to meet demand and there was pressure on prices.

The proposal being considered by the Committee is an integral and necessary part of the Administration's program. It will have no ill effect on the domestic copper mining industry; it will be of great benefit to the industrial consumers of copper; and it will contribute to our efforts to maximize the supply of copper, stabilize the copper market and hold the price line in the United States.

Mr. Chairman, I believe the need for the temporary suspension of duties on copper raw materials is clear and its purpose unobjectionable. For the period covered by this bill, there is no possible threat to domestic producers of copper from foreign competition. Moreover, they are adequately protected by the column 1-b duties which would automatically come into effect in the unlikely event that the market price of copper falls below 24 cents per pound.

I therefore urge favorable consideration of the Administration's proposal.

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 (b) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

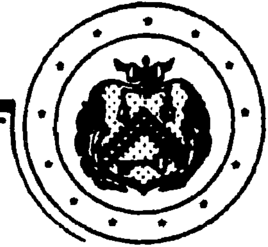
printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public 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 March 10, 1966 (16), in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 10, 1966 (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 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

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 2, 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 March 10,1966, in the amount of $2,202,125,000, as follows:

91-day bills (to maturity date) to be issued March 10, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated December 9,1965, and to mature June 9, 1966, originally issued in the amount of $1,000,088,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated larch 10,1966, and to mature September 8, 1966.

The bills of both series will be issued on a discount basis under ompetitive and noncompetitive bidding as hereinafter provided, and at aturity their face amount will be payable without interest. They ill 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 to the closing hour, one-thirty p.m., Eastern Standard ime, Monday, March 7, 1966. Tenders will not be eceived at the Treasury Department, Washington. Each tender must e for an even multiple of $1,000, and in the case of competitive enders the price offered must be expressed on the basis of 100, ith not more than three decimals, e. g., 99.925. Fractions may not used. It is urged that tenders be made on the printed forms and rwarded in the special envelopes which will be supplied by Federal serve Banks or Branches on application therefor.

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 ponsible 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.

F-393

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 2, 1966

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Tenders will be received at Federal Reserve Banks and Branches up to the hour, one-thirty p.m., Eastern Standard time, Monday, March 7, 1966 will not be received at the Treasury Department, Washington. Each tender for an even multiple of $1,000, and in the case of competitive tenders the p offered must be expressed on the basis of 100, with not more than three deci e. g., 99.925. Fractions may not be used. It is urged that tenders be made

STATEMENT BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
ON H.R. 11256 AND H.R. 11290
WEDNESDAY, MARCH 2, 1966

Mr. Chairman and Members of the Committee:

I welcome this opportunity to urge prompt and favorable action on H.R. 11256, introduced by Chairman Mills, and H.R. 11290, introduced by Mr. Byrnes, nearly identical bills, which propose a "Federal Tax Lien Act of 1966." The proposed Act is the first comprehensive revision and modernization of the provisions of the Internal Revenue Code relating to the priority of federal tax liens over the interests of other creditors. Some of the present basic provisions of our lien law antedate the 1913 income tax, and others were adopted in 1913. Subsequent commercial developments have resulted in a variety of new security interests which the present tax lien provisions do not accommodate. Moreover, a number of technical defects in the operation of the lien procedure have accumulated over the years. In adapting the tax lien provisions of the Code to present business practices, and in resolving a number of technical questions which have arisen over the past several years, the proposed Act is in the best interests of both private enterprise and the government.

In my statement I intend to cover only the high-lights of the proposed Act, as I am submitting a technical explanation discussing it in detail.

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 March 10, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 10, 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.

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Background of bill.

As you may know, the proposed comprehensive revision of the priority and effect of federal tax liens was initiated by the American Bar Association and other interested industry groups. These groups have worked with the Treasury Department and the Internal Revenue Service for several years to perfect a bill which would represent a fair and desirable revision of the rules governing tax liens. I believe that, except for proposed section 3506 of H.R. 11256 relating to withholding taxes in the construction industry, which I will discuss later, to which the construction industry has objected, all interested parties, including the Treasury, are in favor of the proposed Act and agreed that it represents a careful and proper balancing of the interests of the government and the needs of the business community.

Necessity for legislation.

Even before World War II attempts were being made to prepare a uniform commercial code to bring together the best business laws and practices prevalent in the United States. The Uniform Commercial Code was finally completed in the early 1950's and has been widely adopted. The Uniform Commercial Code is an historic revision of the laws governing commercial practices in the United States. That revision in turn requires a revision of the rules governing federal tax liens, as these rules play an important part in day-to-day commercial activity.

In addition, the present law of federal tax liens had resulted, even prior to the widespread adoption of the Uniform Commercial Code,

in a number of difficulties. Section 6321 of present law imposes a lien for any unpaid taxes upon all the property and rights to property of the taxpayer. The lien arises as of the time the tax is assessed and attaches to all property of the taxpayer then owned or thereafter acquired. The assessment of the tax occurs when the tax is entered upon the records of the district director. The occurrence of this act is not published and creditors are not in a position to learn that a lien exists. In order to limit the application of this unpublished lien section 6323 (a) presently provides that a lien will not be valid against a "mortgagee, pledgee, purchaser or judgment creditor" unless public notice of the tax lien has been filed.

The creation of a federal tax lien which arises as of assessment, and the inapplicability of this lien, until publication, to a mortgagee, pledgee, purchaser, or judgment creditor have resulted in two major problems:

First, questions arise as to whether a particular person is a "mortgagee, pledgee, purchaser, or judgment creditor." For example, is a bank which engages in trusts receipts financing of inventory a mortgagee or pledgee of the inventory?

Second, other questions flow from the Supreme Court's rulings that, to qualify as a "mortgagee, pledgee, purchaser or judgment creditor," the interest of the claimant must be "choate." The Court reasoned that when Congress said "mortgagee," for example, it was referring to the holder of a current, effective mortgage in the traditional

sense of that word, and not to some contractual right to obtain a mortgage at a future date. Thus, if A grants B a mortgage in certain real property to secure whatever amounts B may choose to loan to A in the future, B will not at that time be a "mortgagee" entitled to protection against a federal tax lien as B is considered to merely have a right to become a mortgagee at a future date by loaning money to A. However, B's interest may be entitled under state law to protection against other creditors as a mortgage.

In addition, in some cases it may be inappropriate to grant a federal tax lien priority even if notice of the lien has been filed. For example, it seems unreasonable to require someone purchasing securities to ascertain whether the seller has a federal tax lien on file against him, and a rule affording protection against a filed tax lien to a purchaser of securities without actual knowledge of the lien has long been a part of the Code. The passage of time has indicated other situations where similar protection is appropriate.

Changes made by the bill.

Expansion of persons protected against an unfiled federal tax lien.--To solve the questions which have arisen as to whether certain persons are a "mortgagee, pledgee, purchaser or judgment creditor" the bill expands the protected categories in order to avoid litigation over the technical label for a particular interest. Thus section 6323 (a) is revised to provide that a federal tax lien shall not be valid as against any purchaser, mechanics lienor, judgment lien creditor, or holder of a security interest until public notice of the

lien has been filed by the Secretary or his delegate. Thus, mechanics' lienors and holders of security interests, which term would include pledgees and mortgagees, are given protection against unfiled federal tax liens. The term "security interest" is one used in the Uniform Commercial Code. The proposed Act would define the term broadly to encompass any interest in property acquired by contract for an adequate and full consideration for the purpose of securing payment or performance of an obligation or for indemnifying against any loss or liability.

Expansion of classes of property entitled to protection against a filed federal tax lien.--Furthermore, certain interests are given priority--in effect a "super-priority"--over the federal tax lien even if notice of that lien is filed. For example, under provisions of present law, a federal tax lien is not valid against stocks or bonds, or a motor vehicle, even though notice has been filed, if the purchaser is without actual notice or knowledge of the existence of the lien. The proposed Act will continue these rules, and grant a similar priority in the case of personal property purchased at retail; in the case of property subject to possessory liens, as in a case where a mechanic retains possession of an automobile until his bill for repairs is paid; in the case of attorneys' liens; in the case of real property tax and special assessment liens; and in the case of insurance contracts.

All these provisions solve problems which have arisen under present law. The rationale of these proposed rules is that it is

not reasonable to expect one acquiring an interest in property in such cases to check on the existence of a federal tax lien.

Expansion of classes of property entitled to protection against a filed federal tax lien to encompass interests which are not technically "choate," but which are related to an earlier, protected, security interest.--As indicated above, for a mortgagee, for example, to be entitled to protection against an unfiled federal tax lien his interest must be "choate," or clearly established. Where a mortgage is obtained which provides that, in addition to the amount loaned, the property is subject to accrued interest, and expenses such as attorneys' fees in the event of default, any right to interest and expenses is not "choate" as the amount of such a right is unknown. The mortgage debt would itself be prior to any unfiled federal tax lien, but the filing of such a lien after the mortgage is obtained, and before the mortgagee's interest in accrued interest or expenses became "choate," would cut off the mortgagee's right to accrued interest and expenses even though such right would usually be protected against subsequently filed liens under state law.

To solve this problem a "super-priority" is granted to interest and expenses attributable to an obligation which is otherwise prior in right to the federal tax lien. Thus such interest and expenses will be prior to a federal tax lien even though notice of that lien was filed prior to the existence of a specific debt for interest and expenses.

Similarly, where a security interest has priority over a federal tax lien because it arose before notice of the lien was filed, the priority of the security interest shall extend (and a "super-priority" shall be granted) to advances (obligatory advances) required to be made either under a contract which runs to a person other than a taxpayer, so as to protect a surety's claim for reimbursement for payments pursuant to a bond, or which is in negotiable form, as where a letter of credit is given by a bank. Furthermore, the priority of a security interest, such as a mortgage, which has priority over a federal tax lien shall extend (and a "super-priority" shall be granted) to advances (completion advances) which are made to complete the construction or improvement of real property or the raising or harvesting of a crop or the raising of livestock. Accordingly, such advances will be prior to a federal tax lien even though notice of that lien was filed before the advances were made and became "choate."

Expansion of classes of property entitled to protection against a filed federal tax lien to encompass interests which are not technically "choate" and which are not related to an earlier, protected, security interest.--In some cases financing techniques are used under which a series of "choate" interests are to be created on a day-to-day basis. However, while part of the series not yet "choate" is cut off from protection against a federal tax lien under present law as soon as notice of the lien is filed, it is not feasible to check each day to see if notice of a federal tax lien has been filed.

To deal with this problem advances made under financing agreements providing for loans on the security of or the purchase of accounts, contract rights, chattel paper, documents, notes, instruments or mortgages, are given a 45-day grace period of priority. In other words, for the purpose of determining the priority of the lien arising under local law on these interests, as against a federal tax lien, such local liens will be deemed to have priority if they arise within 45 days after the notice of federal lien has been filed. If notice has not been filed they will, of course, be protected as security interests against the unfiled federal lien.

As a practical matter this means, for example, in the case of a lender engaging in accounts receivable financing, that he need check with the local registrar for federal tax liens against a borrower only every 45 days. If he checks, and no lien is on file, he will be assured that he can make loans on a day-to-day basis for 45 days as the accounts receivable are forwarded from the borrower, without fear that a federal tax lien may be filed against the borrower and be prior in right to his advances. At the end of the 45-day period he can check the records of the local registrar again and determine whether to continue making advances for the next 45-day period.

In addition to these fundamental alterations in the present priority rules for federal tax liens, the proposed Act makes a series of technical changes to solve particular problems that have arisen over the years, many of which inconvenience, or even seriously hamper

commercial activity. Moreover, specific rules are added governing suits against the United States when a third party has an interest in the property levied upon. The bill also makes various technical amendments to title 28 of the United States Code (relating to the judiciary and judicial procedure) to cure existing technical defects and simplify the procedure for litigating with the United States concerning title to property, as in connection with actions to partition or condemn property and actions in interpleader.

Some special problems.

There are four provisions of the proposed Act which are of special interest to the Treasury Department.

Under present law the only means of reaching a delinquent taxpayer's interest in an insurance contract is to bring a foreclosure action. However, this will terminate the policy and is a clumsy and lengthy proceeding. The proposed Act establishes a procedure by which the government can levy on a policyholder's interest in an insurance contract without extinguishing the policy by foreclosure. Thus, although the government can obtain the taxpayer's interest in the policy, the policy itself may be continued by the beneficiary or other interested party.

The other three provisions of particular interest to the Treasury Department deal primarily with various aspects of collecting withholding taxes in the construction industry, and in the case of the provision dealing with "net payroll financing," in the garment industry as well.

As you know employers are required to withhold income and employment taxes from the wages of their employees, deposit these taxes monthly in a local depository, and file returns and pay any balance quarterly. Substantial problems have arisen with respect to the collection of these withholding taxes, often known as trust fund taxes, particularly in the construction industry.

First, where a contractor has overextended himself and is unable to complete a contract, a surety company, which has guaranteed his performance and is required to complete the job, is now able to arrange to discharge its obligation in a way which completely avoids the payment of the withholding taxes which otherwise would be due on the completion of the job. This technique is called "net payroll financing." What happens is that the surety advances only the payroll net of withholding taxes to the contractor who continues to do the work to complete the job. However, the contractor is unable to pay the trust fund taxes attributable to the wages he has paid, for the surety company has provided no funds for that purpose and the contractor has none of his own. The assets of the contractor are usually heavily mortgaged in such cases, often to the surety, so that their seizure by the Internal Revenue Service results in practically no recovery. The courts have held that a promise to guarantee the payment of "wages" does not constitute a promise to guarantee the payment of withholding taxes attributable to those wages. Moreover, several courts have held that in such instances

the surety company is not liable for the employment taxes under the Internal Revenue Code as it is not technically the "employer" in such a case. Thus, by using the bankrupt contractor as a middleman, surety companies have been able to honor their obligations under a surety contract without making provision for the payment of the federal withholding tax liabilities which are a necessary concomitant of the completion of the job. The significant industries in which this practice has been used so far are the construction and garment industries.

This is a wholly indefensible practice, and the proposed Act would impose liability upon all third parties paying or providing for wages in such instances. In light of the proposal for graduated withholding recently adopted by the House, the limitation of liability under the proposed Act to 20 percent of the funds provided for wages should be raised to 25 percent, to cover both income and employment tax withholding.

Second, as I have indicated, the courts have held that a promise of a surety to guarantee the payment of "wages" does not constitute a promise to guarantee the payment of withholding taxes. This has often resulted in a problem on federal construction jobs inasmuch as the performance bonds now required do not insure against nonpayment of the government's own taxes. The proposed Act would amend the Miller Act (40 U.S.C. 270(a)) to require that performance bonds on federal construction jobs specifically insure payment of the employment taxes incurred on that job. A similar amendment has been proposed in the past by members of Congress.

These two provisions remedy these periodically troublesome problems. A third, and more general problem, is dealt with in H.R. 11256, but not H.R. 11290. H.R. 11256 provides, in proposed section 3506, that if taxes withheld on wages paid to an employee for services performed in the construction of real property, where the contract price exceeds $2,000 (other than a single family, owner occupied dwelling), are not paid, the U. S. shall have the same rights (including liens), remedies and priorities against any person or property to collect such unpaid wages as are provided by any law for the collection of such wages by such employee.

This solution was developed as an alternative to an earlier proposal which imposed liability for any unpaid withholding taxes of an employer upon any person who contracted with the employer for the improvement of real property, except where such person obtained a certificate from the employer, executed under penalties of perjury, that such taxes had been paid. In our judgment this earlier proposal had some advantages over the present solution from the standpoint of those affected by the proposal, but either solution to this problem would be acceptable to the Treasury Department.

The problem here is a real one. All too frequently general contractors or subcontractors in the construction industry receive money to pay their employees, but, after deducting withholding taxes from the wages paid, do not turn these trust fund taxes over to the federal government. Although the construction industry is estimated to withhold only about 5.67 percent of the trust fund taxes collected

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annually from all employers, a recent study of current delinquencies showed that 26 percent of the dollar value of delinquent trust fund taxes was attributable to the construction industry. This 26 percent amounted to more than $55 million annually. At this point I submit for the record a copy of a memorandum containing an analysis which was made by the Internal Revenue Service of trust fund delinquencies.

The provision of H.R. 11256, proposed section 3506, to which I refer, would give the U. S. the same rights with respect to unpaid trust fund taxes which the employee of a contractor, to whose wages the taxes apply, would have if his wages were not paid. All 50 states have mechanics' lien laws which, in different degrees and through different procedures, impose a liability for unpaid wages of construction workers upon the owner of real property to whose property the wages are attributable.

The adoption of proposed section 3506 would merely reinstate a responsibility of the owners of real property. When the withholding tax system was adopted in the early 1940's, owners of real property were inadvertently relieved of a portion of their obligation to see that all the wages of their contractor's employees were paid, inasmuch as they remained liable under state law only for the portion of the wages to be paid to the employees, and federal law did not impose responsibility for the portion to be withheld and paid the United States.

The federal government should be in no worse position with respect to withheld taxes than a workman whose wages have not been paid. These withheld wages represent money that, were it not for tax withholding, would be owed and paid to the workman from whose wages the money was withheld. Thus, the funds which proposed section 3506 is intended to help collect do not in any sense belong to the withholding agent, and every reasonable step should be taken to insure the integrity of these trust funds. These trust fund taxes contribute value to the real property constructed just as do the labor and materials which go into the building. Since the owner of the property receives the ultimate value of these taxes, it is reasonable to expect him to help insure that they are in fact paid.

As I have indicated, under state law if a contractor or subcontractor fails to pay his employees, even though funds have been provided to him by the owner of a building for such purpose, the employees may hold the owner of the building on which the work was performed responsible for the unpaid wages. It is the ordinary practice for persons contracting for construction work on their real property to take special steps to see that wages incurred on the job will be paid. The purpose of proposed section 3506 is to require that an owner of real property who is contracting for the construction of improvements on real property take the same steps to guarantee the payment of withholding taxes incurred on the job as he would to guarantee the payment of wages.

Often owners of real property protect themselves against any liability for unpaid wages by withholding one week's wages from the contractor until the work is completed. By withholding an additional amount equal to one week's wages the owner may also protect himself from any liability for unpaid taxes. In the alternative, the owner can simply pay the contractor the net wages owed to his workmen, and give the contractor a check payable to the United States for the withheld taxes to protect against any possible liability. Or a surety bond could be obtained by the owner. In the case of employees of subcontractors the property owner often shifts the risk of non-payment of wages to the general contractor by contract. The general contractor could take steps similar to those mentioned above to protect himself against any liability which he may incur under an agreement with the owner of real property with respect to the unpaid withheld taxes of his subcontractor.

In view of the extremely high and entirely disproportionate trust fund tax delinquencies in the construction industry, despite concerted Internal Revenue Service efforts to cope with the problem under present procedures, some way must be found to assure the collection of these taxes. I urge the Committee to schedule hearings on proposed section 3506, contained in H.R. 11256, so that the Treasury Department may present the reasons for this proposal in detail.

Summary.

In summary, the Treasury Department is in favor of the proposed Federal Tax Lien Act of 1966 and recommends its adoption to the Committee. The proposed Act represents a sound balancing of the interests of the government and of the business community and is needed to insure the proper functioning of our private credit system and the government's tax collection activities. It also corrects a great variety of technical defects that have accumulated over the years. In addition, the Treasury Department urges that hearings be held on proposed section 3506 of H.R. 11256, designed to solve a pressing withholding tax collection problem in the construction industry, so that the Committee may be advised of the details of this problem and the proposed solution, and take appropriate action. As I said above, measures must be found to end the failure of this industry properly to account for the trust funds which it obtains through the withholding system.

OPTIONAL FORM NO. 10
MAY 1962 EDITION
GSA GEN. REG. NO. 27
5010-106

UNITED STATES GOVERNMENT

Memorandum

TREASURY DEPARTMENT
Washington, D.C.

TO : Stanley S. Surrey
Assistant Secretary

DATE: February 12, 1965

FROM : Sheldon S. Cohen
Commissioner, Internal Revenue

SUBJECT: Trust Fund Tax Collection in the Construction Industry.

Proposed section 3506 of H.R. 11256 (89th Cong. 1st Sess.) deals with a serious problem in the collection of trust fund (income and employment) taxes from employers in the construction industry.

That the Internal Revenue Service has encountered serious difficulties in collecting trust fund taxes withheld by employers in the construction industry, which difficulties have not been overcome by remedies presently provided, is made clear by a study recently completed by the Service.

The attached tables are based on an analysis of all delinquent employment tax accounts in January 1965 by all district directors. These tables show:

(I) The percentage of employment tax returns (Federal Insurance Contributions Act taxes and income tax withholding) filed on Form 941 without full payment which is allocable to the construction industry, and the dollar amount of the delinquency;

(II) The percentage of employment tax accounts attributable to the construction industry which is allocable to those of such accounts which are one year old or older, and the dollar amount of such accounts;

(III) The percentage of employment tax accounts which were written off as uncollectible in fiscal year 1964 which is allocable to the construction industry, and the dollar amount of accounts written off.

(IV) The percentage of employers having a history of delinquency in the employment tax area which is allocable to employers in the construction industry.

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

In brief summary, the tables reveal that, although the construction industry is estimated to pay only about 5.67 percent of trust fund taxes collected annually, 26 percent of the dollar value of delinquent trust fund taxes is attributable to the construction industry. Twenty-eight percent of the dollar value of trust fund taxes written off in fiscal 1964 as uncollectible is attributable to the construction industry. Thus, $16,290,098 of trust fund taxes which should have been paid by the construction industry were written off as uncollectible in fiscal 1964.

Supplementing the statistical data obtained from the Service's recent study is the fact that, in the almost unanimous opinion of the fifty-eight District Directors of Internal Revenue all across the country, employers in the construction industry gave them the greatest difficulty in terms of number, frequency, dollar volume, and duration of delinquencies. No other industry group presents a problem of the same magnitude. The problem in the garment industry, the industry group which gives perhaps the next greatest amount of difficulty, is not nearly as great, and to a large extent that problem should be alleviated by the adoption of proposed section 3505 of the proposed Federal Tax Lien Act of 1966 which attacks the practice of "net payroll financing."

Attachments

TABLE I

Delinquent Form 941 Accounts
Outstanding Against
Construction Industry Employers

Current Inventory - January 1965

Region	(1) Total Number of Form 941 Accounts For All Employers	(2) Number of Form 941 Accounts Attributable to Construction Industry	(3) Percent, Col. (2) to Col. (1)	(4) Total Dollar Value of Form 941 Accounts For All Employers	(5) Dollar Value of Form 941 Accounts Attributable to Construction Industry	(6) Percent, Col. (5) to Col. (4)
IONAL TAL	163,163	28,366	17	$210,950,140	$55,608,622	26
heast	22,479	5,077	23	16,876,204	5,081,987	30
heast*	10,108	1,567	16	11,691,950	2,458,032	21
est	15,931	2,283	14	15,907,514	3,758,699	24
ral	17,014	2,744	16	25,825,352	5,446,497	21
hwest	17,579	4,194	24	20,015,000	7,538,000	38
York*	26,981	2,438	9	47,199,316	8,557,215	18
Atlantic	23,187	3,922	17	34,296,144	9,071,429	26
ern	27,790	5,744	21	38,253,118	13,370,617	35
ce of ernational rations	2,394	397	17	883,542	326,146	37

Each account included in the figures appearing in Column (1) and Column (2) of Table I represents a return filed on Form 941 without full payment of the taxes shown thereon to be due. The number of accounts shown in Column (1) includes the number separately shown in Column (2). The dollar amounts shown in Columns (4) and (5) represent employment tax liabilities reported but not paid.

*The Northeast and New York Regions were consolidated in January 1965 under the name of North-Atlantic Region.

TABLE II

Form 941 Accounts Outstanding Against
Employers in the Construction Industry
For One Year or More

Current Inventory - January 1965

Region	(1) Total Form 941 Accounts Attributable to Construction Industry	(2) Form 941 Accounts Attributable to Construction Industry Which Have Been Outstanding 1 Year or More	(3) Percent, Col. (2) to Col. (1)	(4) Total Dollar Value of Form 941 Accounts Attributable to Construction Industry	(5) Dollar Value of Form 941 Accounts Attributable to Construction Industry Which Have Been Outstanding 1 Year or More	(6) Percent, Col. (5) to Col. (4)
NAL L	28,366	9,785	34	$55,608,622	$29,730,508	53
heast	5,077	1,532	30	5,081,987	2,349,957	46
heast	1,567	472	30	2,458,032	1,149,610	47
st	2,283	656	29	3,758,699	1,885,820	50
al	2,744	1,100	40	5,446,497	3,326,135	61
west	4,194	1,574	38	7,538,000	3,881,000	51
ork	2,438	1,073	44	8,557,215	5,546,035	65
tlantic	3,922	1,413	36	9,071,429	5,049,234	56
rn	5,744	1,853	32	13,370,617	6,412,670	48
s of rnational ations	397	112	28	326,146	130,047	40

TABLE III

Form 941 Accounts Attributable to Employers in the Construction Industry Which Were Written Off as Uncollectible in Fiscal Year 1964

egion	(1) Total Number of Form 941 Accounts Written Off as Uncollectible For All Employers	(2) Total Number of Form 941 Accounts Attributable to Construction Industry Which Were Written Off as Uncollectible	(3) Percent Col. (2) to Col. (1)	(4) Total Dollar Value of Form 941 Accounts Written Off as Uncollectible For All Employers	(5) Dollar Value of Form 941 Accounts Attributable to Construction Industry Which Were Written Off as Uncollectible	(6) Percent Col. (5) to Col. (4)
AL	63,028	10,604	17	$57,604,521	$16,290,098	28
ast	9,691	1,695	17	5,223,196	1,493,683	29
ast	5,712	1,135	20	6,214,966	1,521,904	24
t	6,471	1,036	16	5,937,454	1,852,089	31
l	7,087	1,114	16	6,174,537	2,388,223	39
ast	6,851	1,603	23	5,157,000	2,116,000	41
k	6,886	613	9	7,872,453	1,199,129	15
antic	8,125	1,353	17	7,730,945	2,091,798	27
	11,985	1,978	17	13,199,651	3,580,657	27
of ational ions	220	77	35	94,319	46,615	49

Delinquent accounts are classified as uncollectible only when all efforts have been exhausted to locate income or assets of the taxpayer out of which collection can be affected. All such accounts are reviewed periodically and are reinvestigated, as deemed appropriate, to determine whether collection prospects have improved.

TABLE IV

Repeated Delinquents
in the Construction Industry

Current Inventory - January 1965

Region	(1) Number of Taxpayers With Outstanding Form 941 Accounts Who Have History of Prior Delinquency	(2) Number of Construction Industry Taxpayers With Outstanding Form 941 Accounts Who Have History of Prior Delinquency	(3) Percent, Col. (2) to Col. (1)
NATIONAL TOTAL	39,098	10,272	26
Southeast	6,376	1,746	27
Northeast	2,600	657	25
Midwest	3,048	830	27
Central	5,084	968	19
Southwest	4,568	1,409	31
New York	3,602	747	21
Mid-Atlantic	6,450	1,464	23
Western	6,564	2,246	34
Office of International Operations	806	203	25

All of the preceding tables reflect statistical data and percentage relationships in respect of delinquencies in payment. None of them pertain in any way to failure to file or to late filing. No data are available in these areas except such as has been obtained so far in the course of our Taxpayer Compliance Measurement Program, which Planning and Research is conducting. However, the data available show that, in the Southeast Region, based on a survey conducted in the second quarter of 1963, 6.6 percent of the taxpayers who were required, but failed, to file Form 941 for one or more quarters in 1962 were employers in the construction industry. These filing delinquencies account for 10.4 percent of the unreported employment tax dollars in that Region for that year.

The Proposed Federal Tax Lien Act

H.R. 11256 and H.R. 11290, nearly identical bills, propose a Federal Tax Lien Act of 1966. H.R. 11256, which this memorandum will discuss, is divided into two titles. Title I covers all changes to the Internal Revenue Code. Title II contains various amendments to title 28 of the United States Code (relating to judiciary and judicial procedure).

Background

Section 6321 imposes a lien upon all the property and rights to property of a taxpayer for any unpaid taxes. The lien arises as of the time the tax is assessed and attaches to property then owned or thereafter acquired. The assessment of the tax occurs when the tax is entered upon the records of the district director. The occurrence of this act is not published and creditors are not in a position to learn that the lien exists. In order to limit the priority of this unpublished lien, section 6323 (a) provides that the tax lien will not be valid against a "mortgagee, pledgee, purchaser or judgment creditor" unless notice of the tax lien has been filed. The fundamental problems in the tax lien area stem from judicial interpretations of section 6323 (a).

First, questions sometimes arise as to whether a particular person is a "mortgagee, pledgee, purchaser or judgment creditor." With the development of various new financing techniques in recent years, these problems have become somewhat more serious. For example, is a bank which engages in trust receipts financing of inventory a mortgagee or pledgee of the inventory? The bill is designed to expand the protected categories to avoid litigation over the technical label for a particular interest.

Far more questions flow from the Supreme Court's rulings that, to qualify under any of the terms listed in section 6323 (a), the interest of the claimant must be "choate." The Court reasoned that when Congress said "mortgagee", for example, it was referring to the holder of a current, effective mortgage in the traditional sense of that word and not to some ill-defined contractual right to obtain a mortgage at a future date. Thus, if A grants B a mortgage in certain real property to secure whatever amounts B may later choose to loan to A, B will not be at that time a "mortgagee", within the meaning of section 6323. B is considered to have merely a right to become a mortgagee at a future date by loaning money to A. This interest may well be entitled to protection under State law as a mortgage. Under the Court's decisions, however, even an unfiled federal tax lien will be valid against that interest because it is inchoate.

The Supreme Court has ruled that for a mortgage to be choate the identity of the mortgagee, the property subject to the mortgage and the amount of the mortgage must all be established. U.S. v. City of New Britain (1954) 347 U.S. 81. The identity of the mortgagee is rarely a problem. Both of the other two requirements can cause practical problems. In the example discussed above, the amount of the mortgage is not established; therefore, the mortgage is inchoate. The choate test operates to deny priority in some very ordinary cases. For example, it is common for mortgages to provide that the costs of foreclosure in the event of default, including attorneys' fees, shall be added to the mortgage. Under most State laws such amounts are entitled to priority under the mortgage. However, if a federal tax lien is filed after the mortgage but before the foreclosure, the tax lien will be junior to the mortgage itself but superior to the attorneys' fees. The courts hold that, to the extent of the attorneys' fees, the amount of the mortgage is not established and thus the mortgage is, to that extent, inchoate at the time the federal tax lien is filed. U.S. v. Pioneer American Insurance Co. (1963) 374 U.S. 84.

Similarly, the requirement that the property subject to the mortgage be established prior to the filing of notice of the federal tax lien can cause problems. A common means of financing business is to make loans secured by inventory. It is equally common for such loans to provide for substitution of inventory. As inventory is sold, new inventory is purchased and is substituted under the mortgage for the inventory sold. State laws normally provide methods for making this substitution without jeopardizing the priority position of the lender. Under the choate test, however, if the property subject to the mortgage on the date the tax lien is filed is subsequently sold and new inventory substituted for the property sold, the federal tax lien will have priority with respect to the new inventory. The property subject to the mortgage was not, to the extent of the substitution, established at the time notice of the tax lien was filed and the mortgage was to that extent inchoate.

The bill attempts to solve these problems by providing specific exceptions to the choate test in new subsections (f) and (g) of section 6323. The choate test is, however, retained.

In addition to these fundamental alterations in the present priority rules for federal tax liens, the bill makes a series of technical changes to solve particular problems that have arisen over the years. The bill also provides certain new procedural rules concerning litigation over property in which the United States claims a tax lien.

Section 101. Priority of Liens

Section 6323 (a)

Present subsection (a) of section 6323 provides that a federal tax lien for which no notice has been filed is invalid against a "mortgagee, pledgee, purchaser or judgment creditor." The terms "purchaser" and "judgment creditor" are retained without change. The term "holder of a security interest" would be substituted for "mortgagee" and "pledgee." Subsection (j) (4) of section 6323 defines "security interest" broadly to include traditional mortgages and pledges and to cover certain other interests which are not protected under present law. In addition, "mechanic's lienor" is added to the list of persons entitled to protection against unfiled tax liens. Mechanic's liens are not entitled to protection under present section 6323.

Present law requires the Internal Revenue Service to file notice of a tax lien in an office designated by the State, if such a designation has been made. The proposed legislation makes it clear that a State may designate only one office for the filing of a notice of lien with respect to a single parcel of real property and one office for the filing of a notice of lien with respect to the personal property of a taxpayer. Thus, a State may not require the Internal Revenue Service to file notices with respect to various kinds of personal property in various State offices. At the time a notice of lien is filed the Internal Revenue Service frequently does not know what kinds of personal property a taxpayer owns, and therefore could not file as required. Furthermore, any state requirement for multiple filing of liens on personal property could create an impossible administrative burden.

Subsection (b)

Subsection (b) of the proposed legislation provides that the Secretary or his delegate shall prescribe the form of the notice of a tax lien. Present law requires that the notice be in a form acceptable to the clerk of the local district court. In the interest of uniform application of this law, a delegation of the authority to the Secretary of the Treasury on this point seems preferable.

Section 6323 (c)

Present section 6323 requires that the notice of lien be filed in the State in which the property subject to the lien is situated. Present law does not provide rules for determining the State in which property is situated. The proposed legislation specifies that the situs of real property is the place where it is physically located and the situs of all personal property is at the place where the taxpayer resides at the time the notice of lien is filed.

There is some confusion in the present case law concerning whether tangible personal property is situated at the place of its physical location or at the place of domicile or residence of the taxpayer. If personal property is considered located at its physical situs, it will be necessary for the Internal Revenue Service to seek out such property and file notices of the lien in several offices. This would be administratively burdensome for the Service and also makes it difficult and expensive for potential creditors to search the records for the existence of a tax lien. The proposed legislation would solve this problem by requiring that a notice of lien be filed only at the place of residence of the taxpayer in order to be valid against personal property.

The proposed legislation specifies that the residence of a corporation or partnership will be at the principal executive office of the business. In the case of a taxpayer who resides outside the United States, the notice of lien will be filed with the clerk of the district court for the District of Columbia.

This subsection will fix the situs of property for purposes of filing notices of federal tax liens notwithstanding any State or federal law to the contrary.

Section 6323 (d)

Present law provides two instances in which a federal tax lien is subordinated even after notice has been filed. A person acquiring an interest in a stock, bond or other security without actual knowledge of a tax lien takes such interest free and clear of any tax lien. Similarly, as the result of an amendment by the Revenue Act of 1964, the purchaser of a motor vehicle without actual knowledge of the existence of a tax lien takes free and clear of the tax lien. These two present exceptions are continued in the law without significant change by paragraphs (1) and (2) of section 6323 (d).

The succeeding paragraphs of subsection (d) add various new exceptions to the priority of a federal tax lien. It should be noted that the exceptions provided by subsection (d) grant "super -priorities." The interests described in that subsection will prevail even over tax liens that arose and were filed before such interests were created.

Under present law if a notice of lien has been filed against a retail merchant, a purchaser of goods from the merchant takes those goods subject to the tax lien. This priority has been invoked only rarely. Nonetheless, it seems unrealistic to expect retail purchasers to check the lien records against their vendors. Indeed, to be fully protected a purchaser must check the records for liens against the manufacturer and every subsequent owner of the goods. Paragraph (3) of section 6323 (d) provides therefore that the tax lien shall not be valid with respect to tangible personal property purchased at retail in the ordinary course of the seller's trade or business. In order

to assure that this provision is not abused, the bill specifically provides that this exception will not apply if the purchase is intended to hinder, evade or defeat the collection of tax.

Most States have statutes granting a lien to a mechanic for work on personal property so long as he retains possession of the property. For example, an auto mechanic is normally entitled to retain possession of an automobile until paid for work performed on the automobile. Paragraph (4) of section 6323 (d) provides that a lien against property in the possession of a mechanic or artisan to secure payment for services shall have priority over a federal tax lien, even if notice of the lien was filed before the work was performed.

Paragraph (5) of section 6323 (d) grants priority over all federal tax liens (filed and unfiled) to a lien provided by State law against a judgment or an amount paid in settlement of a cause of action to the extent of the reasonable compensation of an attorney for securing such judgment or settlement.

Under State law real property taxes are usually given priority even over prior mortgages on the property. Such local real property tax liens are usually not superior to federal tax liens, however, since they are not among the classes of interests entitled to protection against unfiled tax liens under section 6323 (a). Serious problems of circular priority have resulted since the real property tax lien, though superior to a mortgage, will be junior to the federal tax lien. The mortgage, on the other hand, may be superior to the federal tax lien but junior to the real property tax lien. Paragraph (6) of section 6323 (d) would grant priority to a lien securing real property taxes (including special assessments and charges for public utilities) over all federal tax liens, whether or not filed, if such liens are granted "super" priority under State law. This change would avoid most of the circular priority problems referred to above.

During the past few years there has been a great deal of litigation concerning the rights of the Government to a taxpayer's interest in an insurance policy to which a tax lien has attached. Paragraph (7) of section 6323 is designed to resolve the problems that have arisen. It grants an insurance company, with respect to a life insurance, endowment, or annuity contract it has issued and which is subject to a tax lien, priority over all federal tax liens (filed and unfiled) in three circumstances: first, priority with respect to all payments or advances made by the company before it has actual notice or knowledge of the tax lien; second, priority with respect to automatic premium loans (and interest thereon) if the automatic premium loan agreement was entered into by the company and the taxpayer before the company has actual notice or knowledge of the tax lien; and, third, with respect to any payment or advance made after the company had satisfied a levy under the new levy procedure provided in section 104 (b) of the bill and before the company is served with another notice of tax lien.

Section 6323 (e)

Mortgages frequently provide that any unpaid interest on the debt and various costs of foreclosing the mortgage will be added to the amount of the mortgage. Under the choate test, the courts have ruled that even though the amount originally loaned under a mortgage is entitled to priority over the federal tax lien, amounts expended by the lender after the filing of notice of a federal tax lien for attorneys' fees are inchoate and are not entitled to priority over the tax lien. See U.S. v. Pioneer American Insurance Co. (1963) 374 U.S. 84. Subsection (e) of the bill would change this result by expressly extending the priority of the underlying mortgage to interest (including finance charges) and foreclosure expenses (including reasonable attorneys' fees, costs of preserving the property and the costs of satisfying liens on the property which are superior to the federal tax lien). The reference to attorneys' fees would include fees for establishing the priority of the security interest as well as for actually foreclosing.

Section 6323 (f)

As indicated in the discussion of interest and foreclosure expenses, any amount which is advanced after the date on which a notice of federal tax lien is filed, even though such amount is secured by a prior mortgage, is inchoate and junior to the federal tax lien. Without some such limitation, a situation could arise in which a lender is able to loan money indiscriminately to a taxpayer long after the Internal Revenue Service has filed tax liens against the taxpayer and to give those additional advances the priority of an earlier mortgage. The choate requirement has thus served a useful and important purpose and would be retained by the bill. The rule has, however, created problems in the case of various legitimate financing arrangements. For example, where the operation of a business is being financed on the security of accounts receivable, it is common for a lender to make additional loans secured by new accounts receivable on virtually a daily basis. In order to be protected against federal tax liens, it would be necessary for such a lender to check the public records for notices of lien before each advance is made. This is a practical impossibility. The proposed legislation allows advances in certain limited situations to take priority over a federal tax lien even though the advance is made after notice of the lien has been filed, but only if the advance is, under State law, protected by a mortgage or other security interest which arose prior to the date on which the federal tax lien was filed.

Paragraph (1) of section 6323 (f) provides a blanket rule allowing lenders to continue to make advances under a prior security interest for 45 days after the filing of notice of a federal tax lien or until actual notice of the lien is received, if that occurs earlier. Similarly, substitutions of property subject to a prior security interest can be made at any time within the same period without loss of priority. For example, if a loan is secured by a lien on inventory, that inventory can be sold and replaced during the 45-day period without any loss of priority. Thus, by checking the records at intervals of not more than 45 days a lender can be fully protected.

Paragraph (2) of that subsection extends the priority of a prior security interest to advances made after notice of a tax lien has been filed if those advances are made pursuant to a binding contractual obligation running to a person other than the borrower (or pursuant to a negotiable instrument) if the contract was entered into (or the negotiable instrument was issued) prior to filing of notice of the tax lien. In order to prevent abuses of this privilege, the priority for obligatory advances made after filing of notice of the lien only applies against (1) property which is subject to the security interest within 45 days after the notice of lien is filed and (2) property which is purchased, constructed or earned with the funds advanced. This provision will give protection against the federal tax lien to payments by a bank pursuant to a letter of credit issued before notice of the tax lien was filed. This provision will also protect surety companies for payments pursuant to a bond entered into before notice of a lien is filed. The priority of sureties would also be effective as against the proceeds of a contract in connection with which the bond was issued and any other property acquired by the taxpayer after the 45-day "grace period" for the purpose of performing that contract.

Finally, nonobligatory advances made after the filing of notice of a tax lien to complete the construction, etc., of a building or the raising or harvesting of a crop or livestock will take priority over the tax lien if the advances are secured by a mortgage or other security interest which arose prior to the filing of notice of the lien. Here again, however, the property out of which amounts advanced after the filing of a notice of lien can be collected is strictly limited. In the case of construction loans, such advances can be collected only out of (1) the property constructed or (2) the rents from a lease of such property, if the lease was entered into before the security interest arose. Advances relating to crops and livestock may be collected out of the crops or livestock and out of any other property which was owned by the taxpayer and subject to the security interest within 45 days after the filing of notice of the lien. For example, assume that a farmer borrows money to feed cattle and that he gives the lender a mortgage on the cattle and on his farm. Assume that a tax lien is subsequently filed and that additional advances are made by the lender to the farmer to feed the cattle. The lender's security interest in the cattle and farm will take priority over the federal tax lien to the extent of the full amount loaned.

In addition, paragraph (3) of section 6323 (f) gives similar protection to advances to enable a contractor to complete a contract for the construction of a building on real property. In such a case priority granted to the lender by this provision over the federal tax lien only applies to a security interest in the proceeds of the construction contract.

The various provisions for priority in subsection (f) serve only to extend the priority of the underlying security interest. In no event will a creditor prevail over the tax lien unless applicable State law so provides.

The Supreme Court has repeatedly held that the determination of the meaning of "property" is a matter governed solely by State and local law. The proposed Act is not intended to reflect in any one way on the question of what constitutes "property." Furthermore, the changes in the law made by new subsection (f) of section 6323 of the Code are not intended to restrict the protection for creditors already available under present law. Thus, while certain so-called purchase money mortgages will be protected by the new subsection (f), any purchase money mortgage which is not covered by subsection (f) but which would have been protected by prior decisional law will continue to enjoy that protection.

Finally, nothing in this bill is intended to reverse U.S. v. Munsey Trust Co. (1947) 332 U.S. 234, which held that the United States may set-off amounts due it for taxes against amounts owed by the United States to the taxpayer under a contract.

Section 6323 (g)

This subsection provides rules similar to those provided by paragraph (1) of subsection (f). That paragraph would allow advances to be made for 45 days after the filing of a federal tax lien if protected by a prior security interest. In some cases, however, such financing is conducted without taking a security interest, as for example by purchasing accounts receivable. Subsection (g) will give a 45-day "grace period" after the filing of a tax lien for lenders who are purchasing accounts receivable or making loans upon accounts receivable in reliance upon a prior financing agreement. As in the case of subsection (f) (1), the "grace period" will end before the expiration of 45 days if the lender has actual notice or knowledge of the existence of the lien.

Section 6323 (h)

This subsection contains definitions applicable to all of section 6323. The definition of the term "security" is carried over from present law and includes bonds, stocks and other forms of commercial paper.

Paragraph (2) adds to the law a definition of the term "purchaser," which is one of the classes of persons against whom a tax lien is invalid until filed. This definition makes it clear that the term "purchaser" includes the holder of an executory contract or option to purchase or lease property and the holder of a lease.

Paragraph (3) of this subsection provides a definition of the term "mechanic's lienor," which is a new class of creditors added to subsection (a) against whom the tax lien will be invalid until filed. In general, this definition conforms to the definition of "mechanic's lienor" under State laws.

Paragraph (4) of subsection (h) defines the term "security interest," which is the other new class of interests in property against which the tax lien is invalid until filed. This class will include interests covered by the present terms "mortgagee" and "pledgee." With the development in recent years of new kinds of financing devices, there have been an increasing number of disputes over whether such devices qualify as mortgages or pledges under section 6323 (a). The definition of the term "security interest" in the proposed legislation, which differs significantly from the definition of that term in the Uniform Commercial Code, is broad enough to encompass all contractual security arrangements and should avoid future litigation on this point. In order to fix the date as of which such security interests come into being vis-a-vis the federal tax lien, the proposed legislation provides that the security interest will be deemed to "arise" at the time when it becomes protected under local law as against subsequent contractual liens against the property.

The definition of "motor vehicle" which was added to section 6323 by the Revenue Act of 1964 has been carried over into the proposed legislation as paragraph (5) of section 6323 (h).

Section 6323 (i)

This subsection provides special rules designed to solve certain technical problems that have arisen under present law. Paragraph (1) continues the provision of present section 6323 (d) which specifically authorizes the Secretary or his delegate to make available to appropriate persons information as to liens against a taxpayer.

Paragraph (2) of subsection (i) provides rules for determining the circumstances under which knowledge of a tax lien on the part of one employee of a business organization will be chargeable to other employees of the organization. It states that the employees of an organization will not be charged with knowledge of another employee unless that knowledge has come to the attention of the responsible individual acting for the organization in the transaction in question. The individual will, however, be deemed to have knowledge of the existence of the lien from the time when that information would have been brought to the attention of the individual involved had the

organization exercised due diligence. An organization will be deemed to have exercised due diligence if it has maintained reasonable routines for communicating significant information to the individual conducting the transaction and there is reasonable compliance with the routines. Due diligence does not require an individual acting for the organization to communicate information unless such communication is part of his regular duties or unless he has reason to know of the transaction and that the transaction would be materially affected by the information.

Under the proposed legislation, in order for certain interests to take priority over the federal tax lien, they must have been received for consideration "in money or money's worth." Paragraph (3) makes it clear that forbearance to sue or collect a debt can constitute valid consideration in money or money's worth. Thus, a general creditor who receives a mortgage in exchange for his agreement not to bring suit to collect his debt will be deemed to have received such mortgage for consideration in money or money's worth, but only to the extent that applicable local law would treat such forbearance as consideration.

Paragraph (4) provides that a person who is subrogated to the rights of a creditor will have the same rights against the federal tax lien as the person to whose rights he is subrogated. This is declarative of present law.

Paragraph (5) provides that the priority of a mortgage extends to property which is attached to and physically becomes a part of property subject to a security interest. Thus, a mortgage on real property will give the mortgagee rights in any fixtures attached to the real property, even though the fixtures are attached after the date on which a federal tax lien is filed.

Section 102. Special Liens for Estate and Gift Taxes

Section 6324

In general, the provisions relating to estate and gift tax liens have been continued from present law. The classes of interests which are entitled to protection against the estate and gift tax liens have been modified to conform to the changes made in section 6323 (a). Thus, mechanic's lienors will be protected against estate and gift tax liens. In addition, the term "holder of a security interest" has been substituted for the present terms "mortgagee" and "pledgee."

Under present law estate and gift tax liens have a life of 10 years. The Internal Revenue Code has long provided, however, that a tax is collectible for only six years after assessment, unless the taxpayer agrees to an extension of that period. Thus, estate and gift tax liens may exist after the tax has ceased to be collectible. The bill amends the language of section 6324 to make clear that the lien ceases to exist when the tax becomes uncollectible.

Finally, section 6324 has been amended to make estate and gift tax liens invalid against any of the liens which are entitled to "super-priority" over the income tax lien. This exception will grant priority to all the interests listed in section 6323 (d) which includes the interest of purchasers at retail, attorney's liens, real property tax liens, etc. In addition, the priority granted to interest and foreclosure expenses by section 6323 (e) will apply against estate and gift tax liens.

Section 103. Certificates Relating to Liens

Section 6325. Release of Lien or Partial Discharge of Property

Present section 6325 provides for a lien to be released, thereby extinguishing the lien itself, or for property subject to a lien to be discharged, thereby freeing that property from the lien. In the latter case the lien continues to exist. The Internal Revenue Service normally issues certificates releasing the lien whenever the tax liability underlying the lien has been paid or has become legally unenforceable. Certificates of partial discharge are used to facilitate the transfer of property. For example, if a taxpayer wishes to sell property in order to pay the tax, he can arrange with the Internal Revenue Service to obtain for the purchaser a certificate discharging the property from the tax lien if the taxpayer pays over to the Internal Revenue Service an appropriate part of the proceeds of the sale. The power to issue these certificates has proved helpful in arranging for the orderly payment of delinquent taxes and the prompt clearing of title to property after notice of a lien has been filed. In order to allow even more flexibility for the Internal Revenue Service to cooperate with delinquent taxpayers and other creditors in the collection of taxes, the bill grants certain new powers to the Secretary or his delegate.

Section 6325 (b) (3) allows the Secretary or his delegate to discharge certain property from a lien if it is sold and the proceeds are held as a fund subject to the same rights as the United States had in the property discharged. In the event of a dispute with a third party over rights to certain property, this provision will allow the property to be sold and the proceeds held subject to subsequent court action.

Subsection (d) of section 6325, which would be added by the bill, empowers the Secretary or his delegate to issue a "certificate of subordination" subordinating the lien of the United States to a subsequent lien on the property under two circumstances. First, the tax lien can be subordinated if the amount of the lien to which the tax lien is subordinated is paid over to the Secretary or his delegate. For example, if the taxpayer wishes to borrow funds to pay a part of the tax, the new provision would allow the district director to grant priority over the tax lien to a mortgage securing that loan, if the proceeds of the loan are paid over in partial satisfaction of the tax liability.

Second, the new subsection (d) would allow subordination of the tax lien to a subsequent security interest if the district director believes that the amount of money realized by the Federal Government will be increased and that collection of the tax will be facilitated by the subordination. Occasionally a situation arises where it is essential to the government that the taxpayer be allowed to obtain additional credit. Assume, for example, that the taxpayer's only asset is a growing crop and that the taxpayer lacks the funds necessary to harvest the crop. In these circumstances, if the taxpayer is unable to borrow the money necessary to harvest the crop, the government may be unable to collect any part of its tax liability. Nonetheless, because of the priority of the federal tax lien, a private lender would normally refuse to make such a loan. Under the proposed language of section 6325 (d) (2) the district director could under those circumstances issue to a lender a certificate of subordination which would grant priority to the amount loaned over the federal tax lien. The issuance of such a certificate would be discretionary with the Secretary or his delegate and proper controls could be set up to assure that the funds are used for the intended purpose.

Proposed subsection (e) of section 6325 provides for a certificate of nonattachment. This certificate would be used in the event of confusion because of the similarity of names or otherwise and would state that a particular tax lien never attached to the property of a named individual. Instances of such confusion occasionally occur and the Code does not at present provide any reliable means for ending the confusion.

New subsection (f) provides specific rules for the first time for determining the precise effect of any such certificates issued by the district director. In general, if such a certificate is filed in the same office in which the notice of lien is filed, it will be binding on the government and can be relied upon by creditors. Paragraph (2) provides, however, that if a certificate of release or nonattachment was issued erroneously or improvidently or if such a certificate was issued in connection with an offer in compromise which is ultimately breached, the Secretary or his delegate may revoke the certificate and reinstate the lien by mailing notice of the revocation to the taxpayer and by filing a notice of the revocation in the same office as the notice of lien to which it relates. This revocation will not be effective, however, to reinstate the lien against any person (other than the taxpayer) who has taken substantial action to his detriment in reliance upon the certificate of release or nonattachment. Paragraph (3) of subsection (f) makes it clear that a certificate of discharge or nonattachment would not prevent the lien from attaching to property which is later acquired or reacquired by the taxpayer. This paragraph is declarative of present law.

Finally, subsection (g) provides that, notwithstanding the usual requirement that a certificate or notice of revocation must be filed in the same office in which the notice of lien is filed, if the officer designated by State law refuses to accept a certificate or notice provided for by this section, such certificate or notice may be filed with the clerk of the district court for that district.

Section 104. Seizure of Property for Collection of Taxes

Section 6331. Levy and Distraint

A minor amendment would be made to section 6331. That section presently provides authority for the Secretary or his delegate to seize property and to levy upon property in order to collect taxes. A sentence would be added to section 6331 (b) to make it clear that a levy upon a debtor of the taxpayer applies only to property of the taxpayer in the possession of the debtor at the time of the levy. For example, if a levy is served upon a bank and the bank pays over to the district director the amount of money in the taxpayer's account at the time of the levy, a question has been raised as to whether the levy applies to subsequent deposits and the bank is thereby prohibited from honoring checks drawn against the subsequent deposits. The proposed language would make it clear that the original levy was fully satisfied by delivery to the district director of all funds due the taxpayer by the bank at the time the levy was served. This provision is considered declarative of present law.

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<u>Section 6332. Surrender of Property Subject to Levy</u>

A new procedure by which the United States may levy upon a delinquent taxpayer's life insurance or endowment policies is provided in a new section 6332(b). The new procedure authorizes the Secretary or his delegate to levy on an insurance company to secure the cash loan value of the taxpayer's insurance policy, as of the ninetieth day after the levy is made. The levy may be made without surrendering the contract document, and it constitutes the exercise of the taxpayer's right to an advance under the insurance contract. The levy must include a certification that a copy of the notice of levy has been mailed to the delinquent taxpayer. An insurance company may satisfy a levy by paying over the amount to which the taxpayer would have been entitled under the policy ninety days after service of the notice of levy. This amount will be increased by any advance (including interest thereon) made to the taxpayer after the date the company had actual notice of the tax lien other than an automatic premium loan (including interest thereon) made pursuant to an agreement entered into by the company and the taxpayer before the company had such notice. In some circumstances it may still be necessary for the United States to bring an action to foreclose its tax lien on an insurance policy or to enforce the lien in some other civil action. The new subsection specifically provides that the satisfaction of a levy by an insurance company will be without prejudice to any such proceeding.

Present section 6332 provides that the Secretary or his delegate may collect a "penalty" equal to the amount of money which a debtor of the taxpayer should have turned over to the district director in response to a levy. Designation of this amount as a "penalty" has caused some confusion. Doubt has existed as to whether the amount so collected should be credited against the tax liability of the taxpayer with respect to whom the levy was made. Since a suit to enforce a levy is basically a means of collecting the underlying tax liability, there has been general agreement that amounts so collected should be credited against the taxpayer's tax liability and the Internal Revenue Service has usually followed that practice. Nonetheless, to avoid any confusion on the point in the future, all references to "penalty" in this enforcement provision have been dropped.

However, a specific penalty of 50 percent of the amount recoverable under the above provision would be added to the law and would apply to any person who fails or refuses to surrender property pursuant to a levy <u>without just cause</u>. This amount would not be credited against the tax liability of the taxpayer with respect to whom the levy was made. Any bona fide dispute over the amount owing to the taxpayer or over the legal effectiveness

of the levy itself will constitute a just cause for refusing to honor the levy and will relieve the taxpayer of the penalty. The Internal Revenue Service has on occasion been forced, however, to sue a debtor of a taxpayer repeatedly in order to collect successive amounts owing to the taxpayer. The first such refusal to honor a levy may well have been founded upon "just cause." Nonetheless, the successive refusals after determinations by a court that the amount should be paid over to the United States were a form of harassment which cannot be justified. Such actions would in the future result in an additional 50 percent penalty on the reluctant debtor.

Finally, a new subsection (d) would be added to section 6332 to specify that any person who surrenders to the United States pursuant to a levy property belonging to a taxpayer would be relieved of any liability to the taxpayer for having honored the levy. This will not, of course, relieve the debtor of liability to a third party whose property is mistakenly handed over to the United States. The debtor is charged with knowledge of the ownership of the property which he holds. In addition, an insurance company which satisfies a levy under the new procedure will be discharged from any obligation or liability to a beneficiary of the policy with respect to which the levy was made.

Section 6337. Redemption of Property

Section 6337 provides rules by which a delinquent taxpayer may redeem property seized by the United States for nonpayment of taxes. At present, the owners of any real property sold at a federal tax sale are entitled to redeem such property at any time for a period of one year following the sale. The one-year period would be reduced by the bill to 120 days. A similar change has been made in title II of the bill with respect to the right of the United States to redeem property on which it has a tax lien following a foreclosure sale of that property by a creditor superior to the United States. See bill section 201 which amends section 2410 (c) of title 28 of the United States Code. A right of redemption constitutes a cloud on the title of a purchaser at any such sale. It may well depress the price which purchasers are willing to pay at such sales and thereby reduce the amount which may ultimately be recovered by the United States and other creditors. Some period of time for redemption by the United States, or the taxpayer in the case of a sale by the United States, is necessary in order to guard against sales at unreasonably low prices. It is believed that the 120-day period provided in the proposed legislation is ample to protect the rights of all parties and will avoid needlessly depressing the price that can be obtained at such a sale.

Section 6343. Authority to Release Levy and Return Property

Present section 6343 authorizes the Secretary or his delegate to release a levy. This section would be amended to add a provision authorizing the Secretary or his delegate to return to its rightful owner any property which has been wrongfully levied upon. The provision would allow return of the amount of any money received pursuant to a levy, specific property seized or an amount of money equal to that received from a sale of seized property. The specific property could be returned at any time prior to its sale by the district director. Money could be returned by the district director only within nine months of the date of the levy. It is important that third parties who claim an interest in any property seized by the United States take prompt action to recover their property. If the district director seizes property under the belief that it belongs to a particular taxpayer, he will frequently end collection efforts against the taxpayer on the assumption that he has collected the tax. If action is to be taken promptly against the taxpayer, it is essential that the district director be advised promptly that the property seized does not belong to the taxpayer.

In addition to the above changes, various minor amendments have been made by section 104 of the bill. For example, section 6335 has been amended to relax somewhat the requirements for publication of notice of a sale of delinquent taxpayers' property. Present law requires that notice be published in a newspaper published within the county where the seizure takes place. This has been expanded to allow publication in any newspaper generally circulated in such county. Section 6338 (c) has been amended to simplify the method for preparation of deeds to property purchased by the United States at a tax lien sale. The amendment drops from the law a requirement that the deed be prepared by the United States attorney. Section 6339 would be amended by adding a new subsection (c) which specifies that a sale of property to satisfy a federal tax lien will cut off all mortgage, liens and encumbrances on the property which are junior to the lien of the United States. This provision is declarative of present law.

Section 105. Collection of Withheld Taxes

This section of the bill adds two new sections to chapter 25 of the Internal Revenue Code, which deals with liability for employment taxes. New section 3505 would impose personal liability for employment taxes where a lender or surety pays wages directly to employees or advances funds to an employer for the payment of wages with actual knowledge that the employer does not intend or will not be able to

pay the withholding taxes relating to such wages. Section 3506 provides that where taxes to be withheld on wages paid to an employee for services performed in the construction of real property, where the contract price exceeds $2,000 (other than a single family, owner occupied dwelling), are not paid, the U. S. shall have the same rights (including liens), remedies and priorities against any person or property to collect such unpaid wages as are provided by any law for the collection of such wages by such employee.

As a preliminary matter it should be understood that the courts have uniformly held that a promise of a surety to guarantee the payment of "wages" does not constitute a promise to guarantee payment of the withholding taxes attributable to those wages. U.S. v. Crossland Construction Co. (4th Cir. 1955) 217 F. 2d 275. Thus, payment of the withholding taxes are almost never guaranteed by a surety bond. Even bonds issued under the Miller Act in connection with government contracts do not guarantee the payment of federal withholding taxes. This latter problem would be corrected by the amendment to the Miller Act in section 105 of this bill.

Section 3505. Liability of Third Parties Paying or Providing Wages

Section 3505 is intended to assure that a lender, surety or other person who assumes responsibility for completion of a construction contract or a contract for the production of goods, such as articles of clothing, will also assume responsibility for the employment taxes subsequently incurred in connection with the job. If any person pays wages directly to the employees, subsection (a) will require withholding of the proper employment taxes. Subsection (b) is aimed at a device that has been the subject of some litigation in recent years. When a prime contractor or surety is forced to complete a contract for an insolvent contractor or subcontractor, the necessary funds are routed through the insolvent contractor, frequently by means of a joint bank account. The person advancing the funds avoids the withholding tax responsibilities of an employer. Only an amount equal to the payroll net of withholding taxes is advanced. The insolvent contractor has no assets out of which the employment taxes can ever be collected. Nonetheless, since the employees were paid only the amount of their wages less withholding taxes, they are entitled to claim credit for the "withheld" taxes on their returns. By this means withholding tax liabilities can be incurred for a substantial period of time with no practical possibility for collection of the tax. See, for example, Westover v. Simpson Construction Co. (9th Cir. 1954) 209 F.2d 908; Phinney v. Southern Warehouse Corp. (5th Cir. 1954) 212 F.2d 448.

In order for subsection (b) of section 3505 to apply, the funds must be advanced for the purpose of paying wages and the person advancing the funds must have actual notice or knowledge that the employer does not intend or will not be able to make timely payments of the employment taxes. Subsection (b) is intended to apply only in the case of devices designed to avoid the tax. It is not intended to apply to an ordinary loan of working capital to a businessman by a bank and will not impose upon lenders a general obligation to determine the purpose of every loan or the ability of the borrower to pay subsequent withholding taxes. Subsection (b) limits the potential liability of the surety, lender or other person to 20 percent of the amount so advanced, approximately the total withholding taxes which could arise from the amount loaned.

Section 3506. Liens for Withheld Taxes

Section 3506 provides that where a contractor fails to withhold and pay over trust fund taxes on the wages of his employees, where those wages are paid for services performed in the improvement of real property (other than a single family, owner occupied dwelling) pursuant to a contract exceeding $2,000, the United States shall have the same rights (including liens), remedies, and priorities against any person or property to collect such unpaid taxes as are provided by any law for the collection of such wages by such employee.

Section 3506 would give the United States the same rights with respect to the collection of the unpaid trust fund taxes as the employee of a contractor, to whose wages the taxes apply, would have if his wages were not paid. All 50 states have mechanics' lien laws which, in different degrees and through different procedures, impose a liability for unpaid wages of construction workers upon the owner of real property to whose property the wages are attributable. Generally speaking, the United States must perfect its rights, with respect to each quarterly period for which a return of withheld taxes was required, by taking the same actions which are required by law of an employee for the collection of his wages. Thus, if under state law an employee must perfect his right against an owner of real property for his unpaid wages by filing a notice with the local registrar of deeds, the United States must file a separate notice of its claim for unpaid withholding taxes for each quarterly return period with the local registrar of deeds.

Where the United States takes all the actions required by law of an employee for the collection of his wages against any person or property, its actions shall be timely for all purposes, and the rights of the United States shall have the same priority against other interests as the rights of the employee would have if the employee had taken the same actions on the first day he could take

such actions. Under some state laws the priority of an employee's claim for wages relates back to the time the services to which the wages are attributable were performed, and the claim of the United States, if properly asserted in the manner provided under state law, also would relate back in such an instance to the time the services to which the taxes were attributable were performed.

The section contains rules to deal with state requirements which too drastically extend or curtail the period available to an employee to perfect his rights. It provides that, with respect to amounts attributable to any particular calendar quarter, the United States has the same period of time after the date when a return for that calendar quarter was due to meet any requirement of state law as the employee has to meet that requirement except that such period shall not be less than 30 days after the date the return for the calendar quarter was required to be filed, or 30 days after the date on which a return for the quarter was filed, if that period expires later. However, the period of time allowed to the United States, with respect to the first requirement of law to be satisfied, shall not exceed six months from the date when a return for a calendar quarter was required to be filed. Thus, even if no return is filed, the United States shall have no more than six months after the time the return should have been filed to assert its claim under this provision, no matter how much longer the period is that state law provides.

If a document required by law may not be filed by the United States in the office designated by state law for the filing of such document by an employee, the required certificate or notice shall be effective if it is filed in the office of the clerk of the United States district court in which the state recording office is located.

Subsection (c) of proposed section 3506 provides that if the person subject to a liability under section 3506 pays withholding taxes he will be relieved of liability to the contractor to the extent of such payments. Thus, for example, the property owner may pay over the withheld portion of the contract price to the United States in satisfaction of the withholding tax liability. To the extent of such payment, the property owner will be treated as having paid the general contractor.

Section 3506(d) provides that a district director may enter into an agreement to extend or waive any time limitation required by law to perfect its rights under the section. Thus, if a property owner were willing to grant a district director an extension of time in which to enforce the government's rights, the district director would have an extended period to collect the unpaid taxes from the employer who was delinquent in withholding and paying over the taxes. The authority to enter into such agreements will avoid unnecessary enforcement actions against property owners.

Miller Act Amendment

Finally, section 105 amends the Miller Act (40 U.S.C. 270a) to require that performance bonds on federal construction jobs specifically insure payment of the employment taxes incurred in that job. At present the surety bonds written on federal construction jobs normally do not insure against nonpayment of the government's own taxes.

Section 106. Suspension of the Running of the Period of Limitation

This section of the proposed legislation makes minor changes in provisions of the Internal Revenue Code relating to suspension of the period of limitations, in part to solve technical problems that have arisen under present law and in part to conform the limitation provisions to the changes made elsewhere by the proposed legislation.

Section 6503. Suspension of Running of Period of Limitation

Subsection (a) of section 106 of the bill would amend section 6503 (b) to suspend the statute of limitations on collection of taxes during the period when the assets of a taxpayer are subject to the control or custody of a court on behalf of the estate of a deceased or incompetent taxpayer. The law is clear that no administrative collection actions can be taken against assets which are in the custody of any court. The Internal Revenue Code presently provides for suspension of the running of the period of limitations in all other circumstances in which the assets are subject to the custody of a court.

Present section 6503 (c) provides that the period of limitations on collection after assessment will be suspended during the period that collection is hindered or delayed because property of the taxpayer is held outside the United States. Proof that collection has been hindered or delayed is difficult. Furthermore, any suspension of the period of limitation should be for a specific and readily ascertainable period of time. The terms of section 6503 (c) would, therefore, be altered by the bill to provide that the period of limitations on collection be suspended for the period during which the taxpayer himself is outside the United States and for six months after his return.

Section 104 (i) of the bill amended section 6343 to grant to the Secretary or his delegate authority to return property wrongfully seized to its rightful owner. Section 110 of the bill adds a new section 7426 to the Internal Revenue Code allowing a third party to sue for return of property or money wrongfully levied upon. During the period when property of a third party is held by the district director, the district director will frequently suspend efforts to collect the tax from the taxpayer in the belief that the seized property will satisfy the tax liability. A new subsection (f) has been added to section 6503 which will suspend the period of limitations on collection after assessment for a period from the date of wrongful seizure of property of a third party until the date such property is returned or a judgment secured pursuant to new section 7426 is satisfied, and for

six months thereafter. This suspension of the statute of limitations will apply only to tax liability equal to the amount of money or the value of the property of the third party.

Section 107. Proceedings Where United States Has Title to Property

Section 7402. Jurisdiction of District Courts

Under section 6335 (e) (1) of the Internal Revenue Code, when the United States holds a sale of property to foreclose its tax lien, a minimum bid figure is fixed in advance by the revenue officer holding the sale. If the bids are not equal to the minimum bid price, the officer will declare the property purchased by the United States. In such cases, and under certain other circumstances, the United States takes actual title to property pursuant to the enforcement of a tax lien. The United States does not at present have any express authority to bring a quiet title action to establish by court decree its rights in such property. Therefore, section 7402 of the Internal Revenue Code would be amended to add a new subsection (e) which will give the United States district courts jurisdiction over any action brought to quiet title to property if the United States alleges that it has title to such property as a result of the enforcement of a tax lien.

Section 7403. Action to Enforce Lien

Present section 2410 of title 28 allows an officer of the United States to bid at a sale pursuant to a foreclosure action brought by a senior lien holder. The bid is limited to the amount of the lien of the United States. Thus, no cash payment by the United States is ever required in such cases. Section 107 of the bill amends section 7403 (c) to allow the United States to bid at a sale ordered in an action brought by the United States in a federal district court to foreclose its tax lien. As in the case of section 2410 of title 28, the bidding is limited to the amount of the tax lien.

Section 108. Intervention by United States

Section 7424. Intervention

Section 108 of the bill repeals the present section 7424 which provides a rarely used method of bringing suit against the United States to quiet title to property in which the United States claims a lien or interest. In its place a new section 7424 would be added to the Code which would specifically grant to the United States the right to intervene in any civil action to assert a federal tax lien

against any property which is the subject of any such action. The new section provides that the civil action or suit shall have no effect upon the federal tax lien or the interest of the United States if intervention is denied.

Section 109. Discharge of Liens Held by United States

Section 7425. Discharge of Liens Held by United States

Under many State statutes junior liens may be extinguished without the lienor being joined in a foreclosure action. In some States, property subject to a mortgage or a deed of trust may be sold by the trustee without any judicial action and junior liens will be cut off by the sale. The Supreme Court has ruled that a federal tax lien may, if State law so provides, be extinguished by such judicial or nonjudicial sales. U.S. v. Brosnan (1960) 363 U.S. 237. As a result tax liens are sometimes extinguished without the United States having actual notice of the foreclosure action or nonjudicial sale. Under these circumstances, it is not possible for the Internal Revenue Service to take the necessary steps to protect the interests of the United States in the collection of its tax revenues.

Section 109 of the bill adds a new section 7425 to the Internal Revenue Code. Subsection (a) of that section provides that a lien of the United States may not be extinguished by a judicial foreclosure unless the United States is joined, if notice of the lien of the United States is on file on the date the foreclosure action is commenced. Thus, a litigant need only check the record for federal tax liens on the date of commencement of the action.

Subsection (b) of section 7425 provides that an interest of the United States in property may not be affected by a nonjudicial sale if notice of the lien was on file 30 days prior to such sale unless the district director is given notice of such sale by registered or certified mail not less than 25 days prior to the sale. Such notice must advise the district director of the time, place and terms of the sale and certain other information concerning the taxpayer and the tax lien. This provision will assure that the district director will have ample opportunity to protect the interests of the United States.

The United States would be entitled to redeem real property from a nonjudicial sale for a period of 120 days following the sale. This is the same period of time allowed for redemptions by the United States (under the amendments to 28 U.S.C. 2410) from judicial sales.

Section 110. Proceedings by Third Parties Against the United States

Section 7426. Civil Actions by Persons Other than Taxpayers

Under present law if a district director seizes property for the payment of taxes of a taxpayer and a third party claims an interest in such property (as owner, mortgagee, etc.), the courts frequently allow the third party to sue the district director to recover the property. In these cases though the judgment is technically against the district director, that officer is defended by the Department of Justice and is held harmless against the judgment by the United States.

New section 7426 of the Internal Revenue Code, added by section 110 of the bill, would codify for the first time specific rules under which a third party could sue the United States directly to recover property or money wrongfully seized by a district director. The remedy provided by new section 7426 will be the exclusive means of redress for actions which may be brought under this section. Any action which cannot be brought under this section may still be brought against the district director under the rules applicable in the past.

In general, new section 7426 will allow a civil action to be brought against the United States in a federal district court if (1) a levy has been made on the property and the plaintiff can show that the levy would irreparably injure his interest in the property, or (2) if the property has been sold and the interest of the third party has been transferred to the proceeds of the sale by agreement or applicable local law. An action can be brought under this provision immediately after a levy has been made and before the property has actually been surrendered to the government. For example, this provision would, in appropriate circumstances, permit an action for an injunction against the government's enforcing its levy.

Subsection (b) of new section 7426 limits the kinds of relief that the district courts may grant under this section. As indicated, the court may grant injunctions against enforcement of a levy or sale of property. The court may order return of specific property held by the United States or may grant a money judgment for the amount of cash levied upon or the proceeds of the sale of seized property.

If the property has been sold for an amount in excess of the government's tax lien, an action may be brought under this section to recover the excess proceeds of the sale. Finally, specific provision is made for allowing the United States to enter into an agreement with the various persons claiming an interest in property for the sale of the property and the transfer of those interests to the proceeds of the sale. An action could be brought under new section 7426 to recover all or part of the proceeds of such a sale.

In order to avoid a period of confusion in litigation after passage of this bill and before practicing attorneys have become fully familiar with its terms, section 7426 (e) grants authority to the district courtsto amend pleadings to conform to the new rules. Thus, if, after the passage of this bill, an action is brought against a district director under the former rules applicable to such actions, the pleadings may be amended to substitute the United States as defendant.

Section 110 (b) of the bill amends section 6532, relating to periods of limitation, to provide that the statute of limitations on actions under section 7426 will expire nine months after the date of the levy giving rise to such action. Since after seizure of property for nonpayment of taxes a district director is likely to suspend further collection activities against the taxpayer, it is essential that he be advised promptly if he has seized property which does not belong to the taxpayer. It is appropriate that the owner of property be required to take steps within a reasonable period of time to protect his interest.

Subsection (c) of section 110 of the bill amends section 7421 (a) of the Code. That section presently prohibits injunctions against the assessment or collection of tax. The cases decided under this provision raise a question as to whether this prohibition applies against actions by persons other than the taxpayer. New section 7426 will specifically allow actions by third parties to enjoin the enforcement of a levy or sale of property. The amendment to section 7421 makes clear that third parties may bring injunction suits only under the circumstances provided in new section 7426 (b) (1) of the Code.

Section 111. Sale of Property Acquired by United States

This section of the bill makes minor technical amendments to the provisions of the Internal Revenue Code providing authority to the Secretary or his delegate to sell property. The purpose of the amendments is to extend those sections to cover all property acquired by the United States without regard to the means by which the property is acquired. For example, these sections would be expanded to apply to property redeemed by the United States.

Section 112. Fund for Redemption of Real Property by United States

Under present law the United States is entitled to redeem real property which is sold at a foreclosure sale by someone having an interest superior to the United States. The purpose of that provision is to allow the United States to redeem property when property is sold at a price substantially less than its fair market value. It is contemplated that the property will be resold by the United States at a more realistic price and that the "profit" on the sale can be used to satisfy a part of the taxpayer's tax liability.

Though this provision has been in the law for many years, no funds have ever been provided to the Secretary of the Treasury for use in redeeming property. A question has been raised as to the propriety of using the general appropriations of the Treasury for this purpose. This bill would, therefore, establish a revolving fund of $1 million for the redemption of real property as permitted by section 7425 of the Code and section 2410 of title 28. The fund will be reimbursed out of the proceeds of subsequent sales of the property redeemed. Any surplus proceeds will be deposited in the Treasury.

Section 113. Effective Date

In general, title I of the bill, which covers all amendments to the Internal Revenue Code, will apply after the date of enactment. Exceptions to that rule are provided to assure that passage of this statute will not impair any rights which are in existence prior to its passage or disturb the judgments in any cases which have become final prior to its passage.

Title II. Consent of United States to be Sued in Actions Affecting Property in Which It Has a Lien or Interest

Title II of the bill makes various technical amendments to title 28 of the United States Code, relating to judiciary and judicial procedure. In general, the purpose of these amendments is to cure certain technical defects in present title 28 and to simplify in certain circumstances the procedures for litigating with the United States concerning title to property.

Section 201. Joinder of United States in Certain Proceedings

28 U.S.C. 2410

In section 2410 of title 28 of the United States Code, the United States has consented to be sued in an action brought in any district court or any State court to quiet title to property or to foreclose a mortgage on property. The United States has not consented to be sued in actions to partition or to condemn property or to be sued in an action in interpleader. Private litigants frequently join the United States in such actions. The United States is forced to move to dismiss the action and then to move to intervene in the action. The bill would avoid these needless procedural steps in the future by adding to section 2410 of title 28 a waiver of sovereign immunity in connection with actions to partition or condemn property and actions in interpleader.

Section 2410 would also be amended to require that the complaint in any such action involving a federal tax lien set forth certain information concerning the lien and the time and place of filing. This will enable the United States to respond to the complaint more promptly.

Subsection (c) of section 2410 has been amended to specify that an action to foreclose a mortgage under section 2410 must seek a judicial sale of the property. This will prevent a court from merely decreeing that the lien or other interest of the United States is junior to the lien being foreclosed and is therefore "cut off." In such cases it will be necessary for the property to be sold so that the United States may claim any proceeds of the sale in excess of the liens and interests which are superior to the interest of the United States.

Section 2410 (c) of title 28 is also amended to reduce the period for redemption of real property provided by that section from one year to 120 days. This change applies only if the interest of the United States in the property is a tax lien. An identical period is provided in new section 7425 (section 109 of this bill) for redemptions from nonjudicial sales.

Finally, a new subsection (d) is added to section 2410 prescribing the amount that shall be paid by the United States in order to redeem property from a purchaser at a foreclosure sale. The courts presently determine this amount by reference to State law, although the law of some states does not prescribe this amount. The new subsection provides a formula of uniform application in all jurisdictions.

Section 202. Jurisdiction and Venue in Certain Cases Against United States

This section makes the necessary technical amendments to title 28 to provide jurisdictional and venue rules for actions under the new section 7426 (relating to civil actions by persons other than taxpayers).

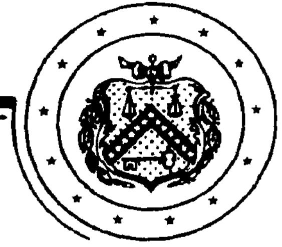
Section 203. Time for Removal of Actions Against United States from State Courts

This section amends section 1446 (b) of title 28 to permit the United States to move for removal of an action from a State court within 60 days after receipt by the United States of any paper from which it may be ascertained that an issue concerning rights of the United States is involved. Under present law such a motion must be made within 30 days after receipt of the first pleading by the United States. This has caused some practical problems in the past because it may not be clear from the original pleadings in a lawsuit that any interest of the United States is involved.

Section 204. Effective Date for Title II

In general, title II, like title I, would apply after the date of enactment. The new rules relating to removal of actions from State courts would apply only to cases in which the first document raising an issue concerning rights of the United States is received by the United States after enactment of the bill.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 2, 1966

FOR IMMEDIATE RELEASE

PERSONNEL CHANGES IN THE ADMINISTRATIVE AREA

The Treasury Department announced today changes in several key administrative positions in the Office of the Secretary. Elton Greenlee has been appointed Director of the Office of Management and Organization. He was formerly Deputy Director of that office and succeeds James H. Stover who became Regional Commissioner of Customs at Miami, Florida on February 1, 1966. Mr. Greenlee joined the Treasury Department in 1961 after six years with private research institutes following several years of management work in the Bureau of the Budget.

James D. Burris has been assigned as Deputy Director of the new Office of Planning and Program Evaluation. He has been Deputy Director of the Office of Budget and Finance of Treasury for the past two and one-half years. In his new position, he will assist Dr. Benjamin Caplan, Director of the office, in establishing the new Planning-Programming-Budgeting System in the Treasury Department. He recently completed the course at Monterey, California in PPBS which the Department of Defense provides. Mr. Burris is an alumnus of the Civil Service Commission Interdepartmental Management Intern Program and has extensive background in Federal financial administration, including service on the staff of the House Appropriations Committee.

Norman E. Sims, Jr. succeeds Mr. Burris as Deputy Director of the Office of Budget and Finance. Mr. Sims has served in that office since 1951, and most recently has been one of the two senior budget examiners.

These positions are under the general supervision and direction of the Assistant Secretary for Administration.

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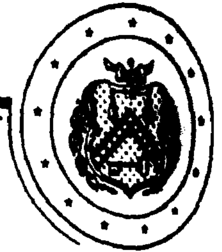
TREASURY DEPARTMENT



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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 7, 1966

FOR IMMEDIATE RELEASE

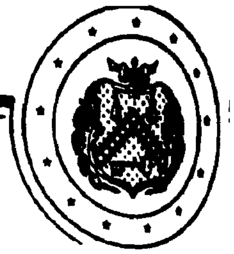
TREASURY DECISION ON VELVET FLOOR COVERINGS
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that velvet floor coverings from Great Britain, manufactured by Carpet Trades Limited, Kidderminster, Great Britain, are 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 January 15, 1966.

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 October 1, 1964, through December 31, 1965, amounted to approximately $55,000.

TREASURY DEPARTMENT



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TREASURY DEPARTMENT

WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, March 7, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills,
series to be an additional issue of the bills dated December 9, 1965, and the other
ries to be dated March 10, 1966, which were offered on March 2, 1966, were opened at th
leral Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of
day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the
series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing June 9, 1966		:	182-day Treasury bills maturing September 8, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.841	4.585%	:	97.580	4.787%
Low	98.827	4.640%	:	97.557	4.832%
Average	98.832	4.620% 1/	:	97.565	4.816% 1/

54 % of the amount of 91-day bills bid for at the low price was accepted
48 % of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 25,165,000	$ 15,165,000	:	$ 5,963,000	$ 5,963,000
w York	1,419,517,000	844,937,000	:	1,231,952,000	699,332,000
iladelphia	27,627,000	15,627,000	:	15,938,000	7,938,000
eveland	33,698,000	33,698,000	:	39,984,000	32,984,000
chmond	13,142,000	13,142,000	:	6,370,000	6,370,000
lanta	48,408,000	39,224,000	:	30,402,000	16,202,000
icago	163,927,000	131,061,000	:	140,474,000	82,873,000
. Louis	56,406,000	48,106,000	:	25,778,000	19,278,000
nneapolis	23,666,000	21,114,000	:	10,272,000	9,012,000
nsas City	27,723,000	27,723,000	:	12,700,000	12,700,000
llas	24,717,000	16,257,000	:	13,900,000	9,900,000
Francisco	144,099,000	94,099,000	:	108,013,000	97,813,000
TOTALS	$2,008,095,000	$1,300,153,000 a/		$1,641,746,000	$1,000,365,000 b/

cludes $258,155,000 noncompetitive tenders accepted at the average price of 98.832
cludes $128,232,000 noncompetitive tenders accepted at the average price of 97.565
ese rates are on a bank discount basis. The equivalent coupon issue yields are
74% for the 91-day bills, and 5.01% for the 182-day bills.

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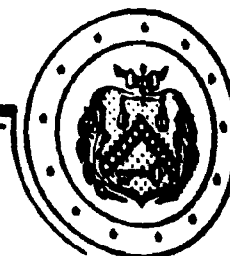
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, March 7, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bill one series to be an additional issue of the bills dated December 9, 1965, and the other series to be dated March 10, 1966, which were offered on March 2, 1966, were opened Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details two series are as follows:

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Average	98.832	4.620% 1/	:	97.565	4.816% 1/

54 % of the amount of 91-day bills bid for at the low price was accepted
48 % 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	$ 25,165,000	$ 15,165,000	:	$ 5,963,000	$ 5,963
New York	1,419,517,000	844,937,000	:	1,231,952,000	699,332
Philadelphia	27,627,000	15,627,000	:	15,938,000	7,938
Cleveland	33,698,000	33,698,000	:	39,984,000	32,984
Richmond	13,142,000	13,142,000	:	6,370,000	6,370
Atlanta	48,408,000	39,224,000	:	30,402,000	16,202
Chicago	163,927,000	131,061,000	:	140,474,000	82,873
St. Louis	56,406,000	48,106,000	:	25,778,000	19,278
Minneapolis	23,666,000	21,114,000	:	10,272,000	9,012
Kansas City	27,723,000	27,723,000	:	12,700,000	12,700
Dallas	24,717,000	16,257,000	:	13,900,000	9,900
San Francisco	144,099,000	94,099,000	:	108,013,000	97,81
TOTALS	$2,008,095,000	$1,300,153,000 a/		$1,641,746,000	$1,000,36

a/ Includes $258,155,000 noncompetitive tenders accepted at the average price of 98.
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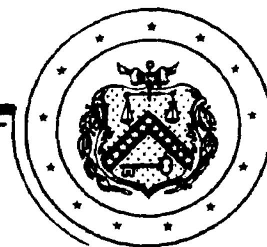
TREASURY DEPARTMENT



WASHINGTON, D.C.
March 8, 1966

FOR RELEASE TO AM NEWSPAPERS
WEDNESDAY, MARCH 9, 1966

THE UNITED STATES MAKES A TECHNICAL DRAWING FROM THE INTERNATIONAL MONETARY FUND

Secretary of the Treasury Henry H. Fowler today announced a further technical drawing by the United States from the International Monetary Fund. The new arrangements provide for periodic draw downs of up to $90 million in Canadian dollars.

These drawings continue the practice begun in February 1964 of obtaining currencies for sale to other countries that have repayments to make to the Fund.

The present arrangement will bring to $1,150 million the amount of U. S. drawings from the Fund. The bulk of these have been made in this "technical" series. A sizable part of these drawings has been offset by drawings of United States dollars by other countries. These restore the U. S. position in the Fund and in effect amount to repayment by the United States.

As a result, the United States' liability to the Fund prior to these further drawings is about $515 million. Drawing rights in the "gold tranche"(virtually automatic U. S. drawing rights in the Fund) of $775 million remain. Part of these drawing rights result from the recent general increase of 25 percent in the Fund quota of the United States (also applicable to the quotas of other members).

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F-395

TREASURY DEPARTMENT

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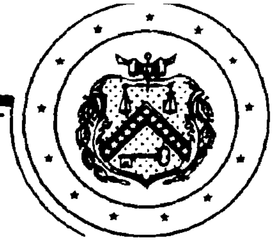

WASHINGTON, D.C.
March 9, 1966

BACKGROUND TO ANNOUNCEMENT OF
UNITED STATES TECHNICAL DRAWING FROM THE
INTERNATIONAL MONETARY FUND

A technical drawing by the United States of the currency of another country from the International Monetary Fund, such as announced today, permits countries in debt to the IMF to make arrangements for repayment without creating a new or potential drain upon United States gold holdings.

Arrangements for making such technical drawings were worked out in 1963 when the Fund's ability to accept dollars -- except from the United States -- approached the limit under the Fund's regulations. (The Fund may not accept dollars, except as a result of a United States drawing, after its holding of dollars reach 75 percent of the U. S. quota in the Fund.)

This meant that a country possessing dollars that it wished to use in repaying previous drawings from the Fund could not make the debt payment directly to the Fund in dollars.

It would be obliged, instead, to use its dollars (1) to buy gold with which to pay its Fund debt, or (2) to buy a currency the Fund was in position to accept as debt repayment.

The first course -- purchase of gold -- would in most cases result in a reduction of U. S. gold reserves. Usually, the gold would be purchased directly from the United States. However, gold purchases with dollars from any source would at least indirectly affect the U. S. gold stock.

The second course -- purchase of another currency -- would place the dollars in the hands of another country, where they would be a potential claim upon U. S. gold reserves.

(OVER)

To avoid either result:

1. The United States draws from the Fund (that is, purchases with dollars, since the Fund can accept dollars -- from the U. S. -- beyond the 75-percent-of-quota limit) a currency or currencies the Fund is in position to accept for debt repayments.

2. The United States sells the currency purchased from the Fund to a country wishing to make debt payments to the Fund.

3. The United States receives the dollars the debtor country has accumulated.

The end results of these transactions are:

-- The country in debt to the Fund gets currency the IMF is i position to accept, as a debt repayment. It winds up with a reduc debt to the Fund and with reduced dollar holdings. The net effect is that it has been able to use dollars indirectly to effect its debt payment to the Fund.

-- The country whose currency the U. S. purchases from the Fu for this purpose is not affected, since its currency is returned to the Fund (as a debt repayment) shortly after it is drawn out of the Fund, and in the same amount.

-- The dollars accumulated by the debtor country to pay its IMF debt wind up with the United States, instead of being used to buy gold, or instead of being transferred to a country where they would be a potential claim upon U. S. gold reserves.

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TREASURY DEPARTMENT

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WASHINGTON, D.C.

March 8, 1966

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN FEBRUARY

During February 1966, 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 $334,464,000.00.

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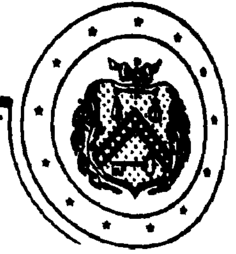
F-396

TREASURY DEPARTMENT



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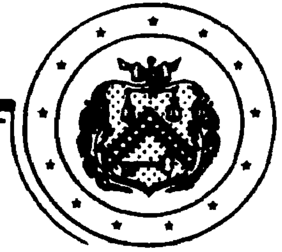
F-396

TREASURY DEPARTMENT



WASHINGTON, D.C.
March 8, 1966

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS IN 1965

The Treasury announced today that net sales of monetary gold by the United States to foreign holders during 1965 amounted to approximately $1,547 million.

Sales of gold to domestic users -- shown separately for the first time in the gold transactions report -- came to $118 million. This brought the total net outflow of gold from the gold stock of the United States in 1965 to $1,664 million.

During the fourth quarter of 1965, net gold sales to foreign holders amounted to just under $82 million. This was approximately the same as in the third quarter. But it was greatly reduced from the outflow of gold to foreign buyers in the first two quarters.

Table 1, attached, shows gold transactions by country and by international organization. More than half of the total outflow went to France, and a third of the total to Austria, Belgium, Italy, the Netherlands, Spain and Switzerland combined. The United States had net receipts of gold during the year from Brazil, Colombia, Morocco, the United Kingdom and the Vatican.

Most of the remainder of the outflow went to the International Monetary Fund, as the required 25 percent gold portion of a recent increase in the United States quota at the Fund.

The quotas of all Fund members were increased by 25 percent, and all are required to pay a fourth of the quota increase in gold. Table 2, attached, shows sales of gold by the United States during 1965 to other countries to enable them to pay the gold portion

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS — TABLE 1

January 1, 1965 - December 31, 1965

(In millions of dollars at $35 per fine troy ounce)

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

	First Quarter 1965	Second Quarter 1965	Third Quarter 1965	Fourth Quarter 1965	Calendar Year 1965
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	- 1.0	+ 25.2
Ceylon	--	- 4.3	--	--	- 4.3
Chile	- 1.0	--	- 2.6	- 1.3	- 4.9
Colombia	*	+ 30.0	--	- 0.8	+ 29.2
Costa Rica	- 1.3	- 0.1	- 0.1	- 0.1	- 1.6
Dominican Rep.	*	*	*	- 0.1	- 0.2
Egypt	- 1.0	- 1.0	- 1.0	- 1.1	- 4.1
France	-482.5	-147.5	- 117.2	-137.0	- 884.2
IMF	--	-258.8**	--	--	- 258.8**
ran	--	--	- 2.2	- 5.3	- 7.5
raq	--	- 10.0	--	--	- 10.0
reland	- 0.4	- 1.0	- 0.4	- 0.6	- 2.4
taly	--	- 80.0	--	--	- 80.0
ordan	--	--	--	- 0.6	- 0.6
orocco	--	--	- 5.2	+ 9.9	+ 4.7
etherlands	- 35.0	--	--	--	- 35.0
anama	- 2.7	--	--	--	- 2.7
hilippines	- 0.1	- 0.1	--	--	- 0.2
alvador	- 1.5	--	--	--	- 1.5
pain	- 90.0	- 60.0	- 30.0	--	- 180.0
idan	--	- 7.6	--	--	- 7.6
itzerland	- 37.5	- 12.5	--	--	- 50.0
ria	- 0.2	- 0.2	- 0.2	- 0.2	- 0.8
rkey	- 15.7	- 2.5	- 8.0	- 10.6	- 36.8
ited Kingdom	- 75.7	+ 29.4	+ 132.3	+ 63.7	+ 149.7
uguay	- 0.1	- 0.1	- 0.1	- 0.1	- 0.4
tican	--	--	--	+ 4.5	+ 4.5
goslavia	- 0.6	- 0.5	- 0.7	- 0.5	- 2.3
l Other	- 0.2	- 0.1	- 0.6	- 0.5	- 1.4
Total	- 811.1	-558.3	- 95.5	-81.6	-1,546.5
al U. S. Gold flow:	- 832.4	-589.2	- 124.1	-118.7	-1,664.4
cluding domes- transactions of:)	(- 21.3)	(- 30.9)	(- 28.6)	(- 37.1)	(-117.9)

ures may not add to totals due to rounding

ss than $50,000.00

epresents gold portion (25 percent) of U. S. quota increase with the IMF

of their quota increases, and deposits of like amounts of gold by the IMF with the United States, to mitigate the effects upon the U. S. gold stock of the quota increases. It is expected that there will be other such offsetting transactions in the future as other countries complete payment of their IMF quota increases.

Other sales of gold for IMF purposes that are not subject to this mitigation procedure show in Table 1, and account for a large part of the sales to the less developed countries.

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TREASURY DEPARTMENT

496

WASHINGTON, D.C.

March 8, 1966

FOR RELEASE TO AM NEWSPAPERS
WEDNESDAY, MARCH 9, 1966

THE MINT ISSUES THE NEW DIME AND HALF DOLLAR
-- Special Mint Sets Go On Sale --

The Treasury announced today that the Mint is placing in circulation this week the new dime and the new half dollar authorized by the Coinage Act of 1965.

Circulation of the new 10 cent and the new 50 cent pieces will complete initial issuance of the new coinage authorized in the Coinage Act of 1965 to reduce the dependence of the United States coinage on silver, which is in short supply throughout the world. The first of the three new coins authorized by the new coinage legislation, the 25 cent piece, has been in circulation since November.

The new 10 cent piece -- like the new quarter already in irculation -- is made of cupronickel (25 percent nickel, 5 percent copper) faces bonded to a core of pure copper. The opper color of the core shows on the edge of the coin.

The new half dollar has an overall 40 percent silver content, ith faces of 80 percent silver and 20 percent copper bonded to a ore of 21 percent silver and 79 percent copper. It is nearly ndistinguishable from the 90 percent silver half dollar.

The new dimes and half dollars will reach the public within a ew days through the normal channels for distribution of new ipplies of coins: from the Mint to the Federal Reserve Banks id branch banks, then to commercial banks and, through the mmercial banks, to businesses and individuals.

The usual practice will be followed, in putting the new dimes d half dollars in circulation, of delivering coins only to banks at have need of additional supplies. New deliveries may clude both the new and old coins.

Table 2

UNITED STATES MONETARY GOLD TRANSACTIONS
WITH FOREIGN COUNTRIES MITIGATED THROUGH
SPECIAL DEPOSITS BY THE IMF
(millions of U. S. $)

Country	First Quarter 1965	Second Quarter 1965	Third Quarter 1965	Fourth Quarter 1965	Calendar Year 1965
Australia	--	--	- 8.3	--	- 8.3
Paraguay	--	--	--	- 0.9	- 0.9
Venezuela	--	--	--	- 25.0	-25.0
Sub-Total	--	--	--8.3	- 25.9	-34.2
IMF Deposit	--	--	+ 8.3	+ 25.9	+34.2

The dime and half dollar now being issued, like the previously issued new quarter, are dated 1965 and retain the design and size of the 90 percent silver coins they succeed. The cupronickel-on-copper construction of the new dime and quarter, and the three-layer construction of the new half dollar, permit them to operate in all coin operated devices that accept 90 percent silver coins.

All of the new coins are to circulate side-by-side with the 90 percent silver coins they succeed. There are no plans to withdraw the 90 percent silver coinage.

Special Mint Sets

Meanwhile, the Treasury announced that the Bureau of the Mint would begin immediately accepting orders for Special Mint Sets composed of the new half dollar, the new quarter, the new dime and the five cent and one cent pieces. The sets sell for $4, including handling and shipping costs.

Coins in the new sets will be struck one at a time from specially prepared blanks, on high tonnage presses, and handled individually after striking. They will have a higher relief than regular coins and be better in appearance than any of the regular uncirculated sets heretofore issued. All coins in the new sets will be dated 1965. They will not carry mint marks.

The Special Mint Sets will be sold in lots of one, two, ive, or ten sets, only, to a customer. They will be made at the an Francisco Assay Office.

Those who purchased 1964 proof coin sets, or uncirculated coin ets, from the Mint will receive order forms for the new sets from ne Mint.

Others should send their orders to:

Officer in Charge
United States Assay Office
Numismatic Service
350 Duboce Avenue
San Francisco, California 94102

Orders will not be received at any of the other Mints. The nt said that inclusion of zip codes with addresses would speed livery of the new sets.

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TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
WEDNESDAY, MARCH 9,1966

F-399

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1966, to February 26, 1966, 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 Feb. 26, 1966
Buttons	510,000	Gross	55,855
Cigars	120,000,000	Number	1,577,090
Coconut oil	268,800,000	Pound	169,510,798
Cordage	6,000,000	Pound	1,398,957
Tobacco	3,900,000	Pound	1,117,852

TREASURY DEPARTMENT
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WEDNESDAY, MARCH 9,1966

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Cordage	6,000,000	Pound	1,398,957
Tobacco	3,900,000	Pound	1,117,852

Commodity	Period and Quantity		Unit of Quantity	Imports as of Feb. 26, 1966
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	1,080,577 1/

1/ Imports as of March 4, 1966.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, MARCH 9, 1966

F-400

The Bureau of Customs announced today preliminary figures on imports for consumption of the following commodities from the beginning of the respective quota periods through February 26, 1966:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Feb. 26, 1966
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	392,294
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	-
Cattle, 700 lbs. or more each (other than dairy cows) ...	Jan. 1, 1966 - Mar. 31, 1966	120,000	Head	15,112
Cattle, less than 200 lbs. each	12 mos. from April 1, 1965	200,000	Head	78,623
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	23,591,432	Pound	Quota filled 1/
Tuna Fish	Calendar year	To be announced	Pound	9,620,930
White or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1965	114,000,000	Pound	61,918,425
Other		45,000,000	Pound	13,957,256
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1965 - Oct. 31, 1966	84,000,000	Pieces	Quota filled
Whiskbrooms	Calendar year	1,380,000	Number	572,148
Other brooms	Calendar year	2,460,000	Number	799,018

1/ Imports for consumption at the quota rate are limited to 5,897,858 pounds during the first 3 months of the calendar year.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

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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	1,080,577 1/

1/ Imports as of March 4, 1966.

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 Mar. 7, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965, to Mar. 7, 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, MARCH 9, 1966

F-401

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 - March 7, 1966

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	130,458
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	1,282,819
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 - March 7, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	38,951,024
1-5/32" or more and under [illegible]		

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, MARCH 9, 1966

F-401

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Imports September 20, 1965 - March 7, 1966

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Peru......................	247,952	130,458	Paraguay....................	871	-
India and Pakistan.........	2,003,483	-	Colombia....................	124	-
China.....................	1,370,791	-	Iraq........................	195	-
Mexico....................	8,883,259	1,282,819	British East Africa.........	2,240	-
Brazil....................	618,723	-	Indonesia and Netherlands New Guinea.................	71,388	-
Union of Soviet Socialist Republics......	475,124	-	1/ British W. Indies...........	21,321	.
Argentina.................	5,203	-	Nigeria.....................	5,377	.
Haiti.....................	237	-	2/ British W. Africa...........	16,004	.
Ecuador...................	9,333	-	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 - March 7, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	38,951,024
1-[illegible] or more and under	1 [illegible] 000	215,624

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 Mar. 7, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965, to Mar. 7, 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.

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 ([illegible] 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 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 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 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 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 Fed Reserve Bank on March 17, 1966 XXXX, in cash or other immediately available or in a like face amount of Treasury bills maturing March 17, 1966 XXXX. C and exchange tenders will receive equal treatment. Cash adjustments will be mad differences between the par value of maturing bills accepted in exchange and the price of the new bills.

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

TREASURY DEPARTMENT
Washington

FOR RELEASE IN A.M. NEWSPAPERS
TUESDAY, FEBRUARY 15, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT A NEWS CONFERENCE ON
THE BALANCE OF PAYMENTS OF THE UNITED STATES IN 1965
FEBRUARY 14, 1966 AT 2:30 P.M.

Final computations, now available, confirm the earlier preliminary estimate of a substantial improvement in the United States balance of payments in 1965.

In 1965 we had a balance of payments improvement of $1.5 billion, so that we ended the year with a deficit in our international payments of $1.3 billion. That is on the overall, or liquidity, accounting basis.

-- That is the smallest overall balance of payments deficit since 1958.

-- It is less than half the size of our deficits of $2.8 billion in 1964 and $2.7 billion in 1963.

-- It compares with average deficits, on this same accounting basis, of $3 billion a year in the seven preceding years, 1958 through 1964.

I want to go over with you some of the main components of the 1965 record, as they bear upon the future. There are both favorable and unfavorable elements.

The $1.5 billion net reduction in the payments deficit on an overall basis occurred despite heavy outflows on private capital account during the early months and despite setbacks for the year as a whole in trade and other accounts. The improvement is in very large part attributable to the effectiveness of the program of voluntary cooperation which President Johnson called for in his balance of payments message of February 10, 1965.

TREASURY DEPARTMENT
Washington

FOR RELEASE IN A.M. NEWSPAPERS
TUESDAY, FEBRUARY 15, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY,
AT A NEWS CONFERENCE
ON THE BALANCE OF PAYMENTS OF THE UNITED STATES IN 1965
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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 9, 1966
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
(XIX)

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 (XX), or thereabouts, for cash and in exchange for Treasury bills maturing March 17, 1966 (XX), in the amount of $ 2,206,604,000 (XXX), as follows:

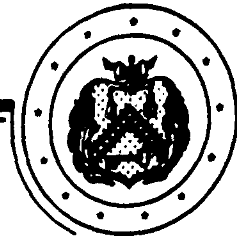
91-day (XX) bills (to maturity date) to be issued March 17, 1966 (XX), in the amount of $ 1,300,000,000 (XX), or thereabouts, representing an additional amount of bills dated December 16, 1965 (XX), and to mature June 16, 1966 (XX), originally issued in the amount of $ 1,000,503,000 (XXX), the additional and original bills to be freely interchangeable.

182-day (XXX) bills, for $ 1,000,000,000 (XXX), or thereabouts, to be dated March 17, 1966 (XXX), and to mature September 15, 1966 (XXX).

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 amou 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 $1,000,0C (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the clos hour, one-thirty p.m., Eastern Standard time, Monday, March 14, 1966 (XXX). 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 th

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 9, 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 March 17,1966, in the amount of $2,206,604,000, as follows:

91-day bills (to maturity date) to be issued March 17, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated December 16,1965, and to mature June 16,1966, originally issued in the amount of $ 1,000,503,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated March 17, 1966, and to mature September 15, 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, March 14, 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.

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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 March 17, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 17,1966. 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[illegible] any Federal Reserve Bank or Branch.

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TREASURY DEPARTMENT
Washington

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FOR RELEASE: UPON DELIVERY

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT THE PHI BETA KAPPA CHAPEL, DEPAUW UNIVERSITY
GREENCASTLE, INDIANA, FRIDAY, MARCH 11, 1966
10:30 A.M.

THE CHALLENGE OF MACRO-LEADERSHIP

In May of 1965 the then President of the Carnegie Foundation and now Secretary of Health, Education and Welfare, the Honorable John W. Gardner, delivered a speech entitled, "The Antileadership Vaccine." A year earlier, at the Annual Loeb Awards Dinner in New York, I delivered a speech entitled "Political Economy -- The Need for a New Look." Both addresses dealt with this question of leadership, and as I pondered the subject of my discussion today it seemed appropriate, with Secretary Gardner's permission, to attempt to advance this important inquiry.

A Phi Beta Kappa Chapel seems an especially appropriate forum in which to undertake an intellectual exercise of this kind. Election to Phi Beta Kappa is tangible recognition of excellence in a particular area of human endeavor. But it is no less true that those who aspire toward a leadership role today -- and I hope people such as you are so aspiring -- face a difficult task in making the transition from particularized excellence to the more general and complex problems of leadership.

Secretary Gardner in his "Antileadership Vaccine" address made several particularly relevant points in this respect.

Leadership and power in this nation are dispersed, and communication or cooperation between leaders in various areas (education, government, the arts, science) is often tenuous and sometimes non-existent. This fragmentation of leadership in a highly pluralistic society such as ours often produces in individual leaders the conclusion that, "it isn't anybody's business to think about the big questions that cut across specialties -- the largest questions facing our society."

Secretary Gardner also had this to say about the training of leaders: "...the best students are carefully schooled to avoid leadership responsibilities. ... the academic world appears to be approaching a point at which everyone will want to educate the technical expert who advises the leader, or the intellectual who stands off and criticizes the leader, but no one will want to educate the leader himself." Such leaders will lack the essential element of confidence so necessary for reaching and following through on difficult decisions. Indeed, Secretary Gardner refers to what he calls the latest modern art, "How to reach a decision without really deciding."

How serious is our problem? What is its exact nature? It seems to me that in a highly developed pluralistic society such as ours, two contradictory forces are at work which severely complicate the problem of leadership. On the one hand, increasing specialization in all professions makes technical expertise an essential prerequisite for anyone who seeks a position of influence within his or her profession.

On the other hand, in this age of large-scale organization and increasing specialization, we face a more urgent need than ever before for people who are capable of practical action in complicated areas requiring deep knowledge of several related disciplines. A person who has climbed the ladder within his profession may be incapable later in life of thinking in broad terms about what Secretary Gardner called "the largest questions facing our society." And, the person who dabbles in a number of disciplines may find that despite his good intentions he lacks the depth, experience, and expertise required to relate various complex fields. I would suggest that this is a very real dilemma which this country will face increasingly in coming years.

Perhaps one way out of the dilemma is to identify some of the "largest" questions facing our society, and then to inquire as to the specialized training and generalized experience that will equip future leaders to deal with the "largest questions." Let me identify what in my opinion is certainly one such question: "How are we to fit a highly sophisticated industrialized society into the political, economic, and cultural institutions that are realities in the world today?" The technical revolution which has characterized the development of Western economies for the

past century has increasingly demanded ever-larger markets for efficient functioning. We have seen two costly world wars, the break-up of colonial empires, and the emergence of a new balance of power in the world. In the West, the result has been increasingly interdependent economies, and larger markets which have become increasingly intolerant of political and cultural restraints. This is natural because the thrust of modern economic development is toward large-scale organization. To some extent, the same process is now occurring in the Soviet bloc countries, but in the underdeveloped world of Asia and Africa, where the need for modern economic development is urgent, the trend of the past two decades has been toward political fragmentation.

It is not simply a question of rich and poor nations, though this indeed is one of the most serious problems we face. Rather, it is a question of somehow building new relationships between individual countries and groups of countries. Europe has moved slowly but purposefully toward the creation of a common market whose breadth and depth will support and sustain a modern economy. There are faltering steps of this type in other regions -- Latin America, parts of Africa, and even parts of Asia. These are processes which in my view must be encouraged and to which the United States should lend its support. They raise whole new areas for world leadership which will be wide open to the political economist.

If we accept as given the political boundaries of today's world -- if we also accept as given the economic imperative for developing markets and trading areas with the depth and breadth to support modern economies, then it seems we are faced with a conundrum. A striking example is Southeast Asia.

With the nations of the region turning their attention to economic development, the obvious course for development is apparent. South Vietnam, North Vietnam, Laos, Cambodia, Thailand, and Burma are all connected in one way or another with the vast Mekong River system. Up to now this river has been literally untouched; not a bridge has been thrown across its banks. Its potential for the development of power, irrigation, and transportation systems would seem to be a basic requirement for any sort of balanced economic development in this area. But obviously the solution to this problem is

made more difficult by political subdivisions which, however, represent real boundries between ancient and hostile peoples. The problem is to develop the Mekong through a regional plan which minimizes the inefficiency inherent in narrow political divisions without eliminating all possibility of progress by ignoring national tradition and tribe. This will require a rare combination of specialized expertise and experience.

It would also be most difficult to build a viable system of higher education in Southeast Asia through some sort of a regional concept. It may even be impossible to do this job in any other way. In all probability the same concept will logically apply to the operations of their central banks, the development of road and rail systems, and quite possibly to the practical problem of developing the savings and raising the capital which will be required to finance these projects.

What is obvious in Southeast Asia is almost equally apparent in other areas. The Indus basin project in India and Pakistan demonstrates that this sort of problem can be solved in the most difficult circumstances, given a constructive attitude, enormous technical skill, and a generous measure of hard work. Africa, the Middle East, and Latin America offer many other examples. In each case the problem and the solution may be apparent to the economist, though not nearly so clear to the politician. Even Europe, with its close economic ties and its relatively common historical traditions, is experiencing severe difficulties in establishing a common market and trading organization. How much more difficult is the problem among the new states who so jealously guard their recently acquired independence!

One can see here the vastness of the problems. Are there any solutions in sight? I think the answer is yes, but the steps forward are slow and tentative, the barriers both formidable and complex. In general, the solution is one of regional development. One aspect of this approach is the recent creation of regional development banks. There has been an Inter-American Development Bank since 1959, an African Development Bank since 1963, and most recently the world is currently engaged in forming the new Asian Development Bank. This bank will be made up of 19 Asian countries supported by the contributions of 12 industrialized nations who have joined together in an institution which can focus the attention of the world on rational economic development in Asia.

In April 1965 in an address at Johns Hopkins, President Johnson threw the support of the United States behind this concept, which had been developed initially by the nations of Asia.

I was assigned responsibility for coordinating the United States effort in this undertaking, with Mr. Eugene Black, ex-President of the World Bank, acting as the President's special representative.

I must confess that I undertook this responsibility with some doubts that were shared rather widely by economists and financiers. I wondered whether or not it was appropriate to fragment and to regionalize our approach to economic development. Reasonable men can still debate this point and can possibly argue that from a purely economic standpoint, the global approach is more appropriate. However, from the standpoint of a <u>political</u> economist, the concept of a regional development bank appeared sound, because it offered the best possibility of reconciling the economic imperatives of regional development with the political difficulties involved in reaching decisions that cut across national boundaries.

During the negotiations which led to the bank's creation, it was reassuring to discover that Indians and Pakistani could sit across the table and discuss the problems of economic development on a rational basis; that my own personal relations with the Finance Minister of Cambodia were cordial and easy; and that the cultural differences which have separated Muslims, Hindus, and Buddhists for centuries did not appear to have a divisive influence. It seems that the comparatively simple and obvious demands of economic development can bring together men of diverse cultures, religions, and nationalities.

If this conclusion is true, and I believe that it is, then the man who can lead and guide these institutions is a crucially important leader in the world today. It is not reasonable to expect the tensions that are built into boundary lines, cultural differences, and religious differences to disappear quickly from our world. But if it is true that the concept of regional economic development can override the realities of these tensions, then the man who can organize, finance, and get political agreement on these projects is truly a leader in whom all of us can place great hope.

There are such men in the world today, though they are in critically short supply. I refer to men such as Mr. Eugene Black, the former President of the World Bank; his successor, Mr. George Woods; the Managing Director of the International Monetary Fund, Mr. Pierre-Paul Schweitzer; the President of the Inter-American Development Bank, Mr. Felipe Herrera; and finally to the man for whom the world is currently searching to lead the new Asian Development Bank.

This, then, is an area which warrants our close attention and the interest of the American public generally. It is an area which will demand leaders capable of practical action in the fields of both politics and economics. In the past we have been extremely fortunate in developing leaders in all fields, but as our national and international problems multiply, and the economic and political milieu in which we are called upon to operate becomes increasingly complex, the question arises as to whether there will be enough such leaders for the future.

I dealt with this problem in my Loeb Awards speech of 1964, where I expressed my regret that the academic discipline of political economy had been divided into the specializations of political science and economics. The result has been to create economists with too little knowledge of how to implement their theories and political scientists who have no real grasp of the economic forces determining political action. I also referred to the French system of "inspecteurs de finance" which has produced men of outstanding skill both in academic economics and in politics, many of whom have come to occupy the very highest positions in French Government. I myself proposed the creation of what I called a financial reserve corps, a group of leaders experienced in the field of political economy. I might add that since then, Secretary Gardner put forward a leadership program which has now been implemented by the President. I refer to the White House Fellows Program under which 15 able young men ranging in age from 23 to 35 are assigned to the White House, to the Vice President, and to the various executive departments, with definite instructions from the President that they should be included in the policy process at the highest levels in our government. One of these young men, Mr. David Mulford, serves as my assistant and is with me today.

It is clear to me that the white House Fellows concept has developed into a remarkable program which should provide an important nucleus of leadership in the next 20 years. Legislation will soon be submitted to Congress which if enacted will make the White House Fellowships a permanent Federal program. My hope is that the same approach might be taken in other areas of Government, such as the financial sphere which I have discussed today.

In 1964 I proposed the creation of a Financial Reserve Corps to meet our future leadership needs in the financial sphere.

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I believe that such a Corps could make a unique contributiong in this area and in closing I would like briefly to outline my proposal. Though set up on a permanent basis, the Corps would have to be created gradually through a carefully planned education and on-the-job training program running over a period of something like three years. During this period participants would be put through two cycles of a year-and-a-half each -- six months' intensive academic training, for example, followed by one year of practical experience in one of the departments or agencies of the Federal Government. Thus, in the three-year period, participants would have two rounds of academic training and hold two responsible posts in the Government. Assignments might be arranged in the Treasury Department, the Bureau of the Budget, the Council of Economic Advisers, the Federal Reserve, State Department, the Pentagon, the Commerce Department. To administer the program a Presidential Commission might be appointed, comprising a professional staff and leading private citizens, Congressional representatives, and high Government officials to conduct the selection of candidates.

As for candidates, I think it should be recognized from the outset that we are talking about an exceptional type of person with a rare combination of talents, attitudes, and experience. Such people defy both specific description and broad generalizations, but certain attributes would seem to be essential. They should be well educated, relatively mature -- possibly between ages 25-33 -- and have some idea about the general direction of their career. Hopefully, candidates might be drawn from a wide variety of sources, including government, banking and investment institutions, business, the legal professions, and the universities. Their background training might be equally diverse -- say, for example, economics, law, political science, mathematics and engineering, history, or philosophy. Above all, it would seem essentail that candidates show unusual capacity for creative thinking, as well as the ability to relate their ideas to complicated economic and financial data. This is a great deal to ask, and I think it would be unwise to be too specific here, because the capacity to make decisions and to follow them through politically is not an easy thing to assess. I do think, however, that participants in the scheme should be expected to commit themselves to serving three or four years in government, either immediately after their training or later in life. In this way a reservoir of trained men would be built up over the years which the Government could draw upon to fill top level positions in the economic and financial spheres.

In the final analysis, however, leadership is essentially an attitude of mind. No matter what programs of specialized training and generalized experience any of us can devise, there must be the willingness by some individuals to accept the risks that are the inevitable companions of leadership.

Today, more than any other type of leader, we need the man who can relate diverse and complicated fields, the man who has specialized but also remains a sophisticated generalist. This is where "attitude of mind" comes in. The men and women who can achieve expertise but retain flexibility, who can define alternatives and still put their hand to the task of implementation -- these will be the leaders of the future.

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BIOGRAPHICAL SKETCH OF FRANK E. RANDA

Frank E. Randa, District Director-designate, Philadelphia Customs District, was born in Pittsburgh on December 11, 1911 and attended Allenby High School in that city. He received a certificate in accounting and commercial law at the Pittsburgh Academy (Park Institute).

Mr. Randa started his Customs career as a marine officer-clerk in Pittsburgh in 1931, serving as assistant entry officer, marine admeasurer, and deputy collector (marine). He became an examiner in 1948 and in 1957 was appointed to his present position as Appraiser of Merchandise in Philadelphia.

Mr. and Mrs. Randa reside at 405 Longfield Road, Philadelphia, Pa.

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BIOGRAPHICAL SKETCH OF H. SINGLETON GARRETT

H. Singleton Garrett, District Director-designate, Norfolk Customs District, was born in Norfolk on February 2, 1916. He received his education at the College of William and Mary, Williamsburg, Va., graduating with a B.S. in 1937. He did post-graduate work in management and business administration at Old Dominion College.

Mr. Garrett served in the U.S. Navy during World War II. For many years he was in the insurance and real estate business. He was appointed to his present position as Collector of Customs in Norfolk in 1961.

Mr. and Mrs. Garrett reside at 1123 West Princess Anne Road, Norfolk, Va.

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BIOGRAPHICAL SKETCH OF CHARLES W. HENDERSON

Charles W. Henderson, Assistant Regional Commissioner-designate (Administration), was born in Buckingham, Fla., on November 17, 1906. He received a Bachelor of Commercial Science degree at the Benjamin Franklin University, Washington, D.C., and studied accounting and banking at Tampa College.

Mr. Henderson entered the Customs Service in 1937 after several years as a clerk with the Atlantic Coast Line Railroad Co. in Tampa. He served with the U.S. Navy during World War II returning to Customs in 1945 as a field auditor in Baltimore. He is currently Acting Comptroller, at Baltimore.

Mr. and Mrs. Henderson reside at 6 Thornhill Road, Lutherville, Md.

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BIOGRAPHICAL SKETCH OF JOHN EUGENE KENNEDY

John Eugene Kennedy, District Director-designate, Baltimore Customs District, was born in Havre de Grace, Maryland, on July 7, 1906. He attended the Havre de Grace High School and studied management at the Federal Executive Management School in Allenberry Lodge, Pa.

Mr. Kennedy, whose hobby is music, once was a concert pianist. He joined the Customs Service in 1924 as a clerk-stenographer, rising through the ranks until his appointment as Assistant Collector of Customs in Baltimore in 1946. He was detailed on loan to the Department of State in 1956 to serve as a member of the U.S. Delegation to the first Inter-American Port and Harbor Conference in San Jose, Costa Rica.

Mr. and Mrs. Kennedy reside at 1307 Southview Road, Baltimore.

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BIOGRAPHICAL SKETCH OF GEORGE H. HEIDBREDER

George H. Heidbreder was born in New York City on February 6, 1922. He received his BS degree at Centenary College in Shreveport, La., and a master of science degree at the University of Illinois, Urbana, in 1956.

He served in the U S. Army from 1940 to 1945 and as an Air Force Intelligence Officer from 1948 to 1955.

Mr. Heidbreder started his career with the U.S. Customs Service in Washington, D.C., as a liaison officer in 1957 and was given responsibility for making studies of work simplification, work flow, staffing and operations. In 1961 he was promoted to the position of administrative officer, and in 1964 was named air operations officer with responsibility for carrier control and inspection operations with respect to the air transportation industry.

Mr. and Mrs. Heidbreder live at 9705 Corkran Lane, Bethesda, Md.

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BIOGRAPHICAL SKETCH OF PAUL (~~[illegible]~~) LAWRENCE

Paul Lawrence, Regional Commissioner Designate, was born in Ardmore, Okla., on May 24, 1910. He studied at Chillicothe Business College, Mo. He completed courses in the Treasury Agents School in Seattle, Washington, and Washington, D.C., and the Treasury Agents Supervisors Institute in Washington, D. C.

Mr. Lawrence served in the U.S. Army during World War II in the Pacific campaign.

Mr. Lawrence was first employed by the Government in March1939 and in 1941 he transferred to the position of Customs guard in Seattle, Washington. In 1945 he became a Customs inspector and one year later was transferred to New York as a Customs agent. In 1954 Mr. Lawrence was Treasury Representative in Charge at Hong Kong.

He was recalled to the U.S. in July 1957 to assume the duties as Customs agent in charge at Buffalo, N.Y., remaining in that position until 1960. He was then appointed Supervising Customs Agent in Seattle, Washington, and in 1963 assumed the duties of Supervising Customs Agent at Chicago, Ill.

Mr. and Mrs. Lawrence reside at 749 Westmere Rd., Des Plaines, Ill.

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appointment. The Reorganization Plan placed the 176-year-old Customs Service wholly on a career basis.

Baltimore will be the sixth region to be activated in accordance with a year-long timetable. Regions already established are San Francisco, Los Angeles, Miami, New Orleans, and Chicago. The remaining three regions are scheduled as follows: Houston and Boston -- May; New York -- June.

Offices of the Baltimore region will be in the U.S. Customhouse at 103 S. Gay Street, Baltimore.

United States Commissioner of Customs Lester D. Johnson heads the Bureau of Customs, which is part of the Treasury Department. His offices are in Washington, D. C.

Biographies follow.

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FOR RELEASE SUNDAY Newspapers (MARCH 13, 1966)

REGIONAL COMMISSIONERS AND DISTRICT DIRECTORS
APPOINTED FOR BALTIMORE CUSTOMS REGION

Assistant Secretary of the Treasury True Davis today announced the appointment of Paul Lawrence, Supervising Customs Agent at Chicago, as Regional Commissioner of Customs for the new Baltimore Region III.

Mr. Davis also announced the appointment of George H. Heidbreder, Operations Officer at the Bureau of Customs in Washington, D.C., as Assistant Regional Commissioner (Operations), and Charles W. Henderson, Acting Comptroller of Customs at Baltimore, as Assistant Regional Commissioner (Administration).

The appointments -- together with those of three Customs District Directors, also announced today -- will be effective, Friday, April 1, with the activation of the Baltimore Customs Region.

The Customs District Directors for the new region are:

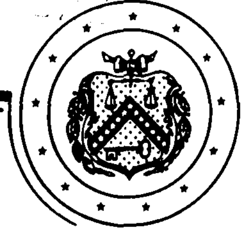
Baltimore Customs District - John Eugene Kennedy of Baltimore, Md.

Philadelphia Customs District - Frank E. Randa of Philadelphia, Pa.

Norfolk Customs District - H. Singleton Garrett of Norfolk, Va.

The appointments were made as part of the President's Regorganization Plan No. 1 of 1965, which was sent to Congress last March and became effective on May 26, 1965. It called for the elimination of 53 Customs positions throughout the U.S. which were previously filled by Presidential

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 11, 1966

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BIOGRAPHICAL SKETCH OF FRANK E. RANDA

Frank E. Randa, District Director-designate, Philadelphia Customs District, was born in Pittsburgh on December 11, 1911 and attended Allenby High School in that city. He received a certificate in accounting and commercial law at the Pittsburgh Academy (Park Institute).

Mr. Randa started his Customs career as a marine officer-clerk in Pittsburgh in 1931, serving as assistant entry officer, marine admeasurer, and deputy collector (marine). He became an examiner in 1948 and in 1957 was appointed to his present position as Appraiser of Merchandise in Philadelphia.

Mr. and Mrs. Randa reside at 405 Longfield Road, Philadelphia, Pa.

* * * *

BIOGRAPHICAL SKETCH OF H. SINGLETON GARRETT

H. Singleton Garrett, District Director-designate, Norfolk Customs District, was born in Norfolk on February 2, 1916. He received his education at the College of William and Mary, Williamsburg, Va., graduating with a B.S. in 1937. He did post-graduate work in management and business administration at Old Dominion College.

Mr. Garrett served in the U.S. Navy during World War II. For many years he was in the insurance and real estate busniess. He was appointed to his present position as Collector of Customs in Norfolk in 1961.

Mr. and Mrs. Garrett reside at 1123 West Princess Anne Road, Norfolk, Va.

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BIOGRAPHICAL SKETCH OF STANELY E. RUTKOWSKI

Stanley E. Rutkowski was born in Trenton, N.J., on August 29, 1917. He studied at Temple University in Philadelphia and completed requirements for a law degree at Rutgers Law School in Newark. During World War II Mr. Rutkowski served in the U.S. Army Intelligence.

Mr. Rutkowski started his government career as Assistant U.S. Attorney ~~with the Department of Justice~~ in 1950 at Trenton. He was named Deputy Attorney General OF THE STATE OF NEW JERSEY in 1954 with responsibility for coordinating the activities of 21 county prosecutors. He was later appointed County Prosecutor by Governor Grover C. Richman, Jr., a post which he held for seven years. HE PRESENTLY IS ~~In 1964 Mr. Rutkowski received a Presidential appointment as~~ Comptroller of Customs in Philadelphia.

Mr. and Mrs. Rutkowski reside at 41 Roxboro Road, Trenton.

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BIOGRAPHICAL SKETCH OF J. NEIL McCARDELL

J. Neil McCardell was born on April 8, 1907 at Baltimore, Md., and received his education at Georgetown University, Washington, D.C., and Loyola College in Baltimore. He served in the Coast Guard during World War II, holding the rank of Mate, Ensign, and Lieutenant.

Mr. McCardell was proprietor of the Maryland Office Supply Company for many years and later a distributor of frozen fruit juice. During 1947-1955 he served two terms as Comptroller of the City of Baltimore. He is presently Collector of Customs in that city.

Mr. and Mrs. McCardell reside at 106 St. Martins Road, Baltimore.

* * *

BIOGRAPHICAL SKETCH OF EUGENE V. ATKINSON

Eugene V. Atkinson was born on April 5, 1927 at Aliquippa, Pa., and was graduated from the high school in that town in 1945. He was employed as a steelworker and later as an insurance agent in Aliquippa.

From May 1945 to August 1946 Mr. Atkinson served in the U.S. Navy. He was appointed Collector of Customs in Pittsburgh in 1961.

Mr. Atkinson resides with his wife at 690 Franklin Ave., Aliquippa, Pa.

(more)

to keep travelers and traders fully informed of Customs laws and procedures.

(Biographies of the Program Advisors are attached.)

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D[illegible]66

SUNDAY
RELEASE A.M. NEWSPAPERS
MARCH 13, 1966

PROGRAM ADVISORS APPOINTED FOR
BALTIMORE CUSTOMS REGION

Assistant Secretary of the Treasury True Davis today announced the appointment of three Program Advisors for the new Baltimore Customs Region III which will be activated on April 1st.

The Program Advisors, whose appointments will be effective on April 1, are:

For the Baltimore Customs District: J. Neil McCardell, currently Collector of Customs for Baltimore.

For the Pittsburgh Customs District: Eugene V. Atkinson, currently Collector of Customs for Pittsburgh.

For the Philadelphia Customs District: Stanley E. Rutkowski, currently Comptroller of Customs for Philadelphia.

The appointments were made in accordance with Civil Service regulations and are part of the Presidential reorganization of the Bureau of Customs. The reorganization is designed to place the 176-year-old service wholly on a career basis and to make the agency more responsive to the growing needs of the traveling public and the commercial community.

Under the reorganization, the Program Advisors will serve as special assistants to the Regional Commissioner of Customs in Baltimore, with responsibility for development of projects and programs in public affairs

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TREASURY DEPARTMENT

WASHINGTON, D.C.

March 11, 1966

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oOo

-- a nation willing and worthy to bear the responsibilities for leadership in an interdependent world.

the 25th or Silver Anniversary year of the Savings Bonds program.

I need not tell you how important it is to reach -- even exceed -- that goal. For every dollar that goes into United States savings bonds does double duty in the fight against inflation -- for it not only diminshes the private spending stream but strengthens our ability to finance our national debt in a noninflationary manner. At the same time, the savings bonds program -- and the payroll savings plan in particular -- help all who participate to enhance their own personal financial well-being and establish the sound financial habit of systematic savings.

The Savings Bonds program is one way -- and an important way in which you, and all Americans, can demonstrate that in deed as in ideal, in performance as in promise, we are a nation of greatness

Savings Committee.

Prior to today's announcement, members of that Committee -- such as Detroit area Chairman, Mr. A.P. Fontaine, and chairmen in other cities throughout the nation -- have been enlisting the campaign support of the top executives of their major companies.

I know that Mr. Townsend and the members of his Committee are volunteering much of their time, talents and resources to this campaign. I know, too, that the members of this audience are all active -- or will be active -- in supporting this campaign for you represent the executive leadership whose efforts are so essential to the Payroll Savings drive throughout industry in Detroit and elsewhere in the nation.

The goal of the nationwide Committee is to spearhead the enrollment of at least 1,200,000 new Payroll Savers during 1966,

(Um ... p. 27)

For the Federal Government these responsibilities require the kind of firm and effective restraint so fully displayed in the budgets President Johnson has presented. For you in the private sector these responsibilities (ABOVE ALL) require -- as a matter of plain national need -- that you continue to follow the path of restraint so clearly mapped out in the wage-price guideposts of the President's Council of Economic Advisers. While I cannot overemphasize the importance today of adhering to these guideposts, I know that my colleague, Gardner Ackley, has recently explored this subject with you in some depth.

Instead, I want to avail myself of the pleasure and privilege of paying tribute to the host of this meeting -- the distinguished president of Chrysler Corporation, Mr. Lynn Townsend -- and to many in this audience for a very special contribution, of particular importance to my Department, that they are making to a sound and strong America.

While we in Treasury have been continuing our contigency planning in that field in which we are at all times regularly engaged, I welcome the announcement over the weekend that a Subcommittee of the Joint Economic Committee of the Congress, chaired by Congresswoman Martha W. Griffiths of Detroit, will open hearings this Wednesday to consider -- and I quote -- "the need for and design of temporary tax changes which could be enacted promptly in response to a recognized need for stimulating or restraining the economy." In appearing before the Joint Economic Committee on February 3, I had suggested that the House Ways and Means Committee or the Joint Economic Committee study and recommend the type of tax increases most suitable should inflationary pressures require additional fiscal action.

In the meantime, we must all understand that whether or not such action will be required will -- in large measure -- depend on how all of us, in government and in the private economy, exercise our clear responsibilities for restraint and moderation. As I have tried to demonstrate, these respons -- while they take on new urgency in the context of our buoyant economy and of the struggle in Vietnam -- are not something newly invented to make business leaders unhappy or labor leaders irate or the lives of all of us more difficult. These responsibilities, on the contrary, are but the inevitable and natural consequence of the responsibility that we as a nation -- that every single one of us as Americans -- must bear for Free World leadership.

For the restraint and responsibility required of us all do not arise out of any extraordinary emergency -- they are simply the natural consequence of the responsibilities we bear for world leadership as they are reflected in the flow of events. We have had to live with this kind of thing for the past several decades, and there are no indications that the decades to come are going to be any easier.

It is today my pleasure and privilege to pay tribute to the host of this meeting -- the President of Chrysler Corporation, Mr. Lynn Townsend -- and to many in this audience for a very special effort that they are making to insure a strong and sound America.

Insert ATTACHed

For today, March 14, marks the announcement of the "1966 Business Bondwagon" campaign is the brainchild of Lynn Townsend in his capacity as Chairman of the nationwide Industrial Payroll

Likewise, the realization that the large amounts of idle and obsolete productive capacity which characterized the American scene too much in the last decade have been whittled away by increasing demand and investment should not be a cause for gloom. Coming on stream in 1966 are vast quantities of new industrial capacity reflecting the most modern and up-to-date technology. These are the fruits of investment made in recent years, and the fact that this type of activity promises to continue in 1966 should not be viewed entirely with alarm.

INSERT (p. 26)

The announcement last week that unemployment had dwindled to less than four percent (3.7 percent) in February -- the lowest

(more than 12)

point in ~~two~~ years -- should not be greeted with jitters. That

~~REACTION~~ (IS NOT THE REACTION OF A GREAT NATION)

~~is not a mark of national greatness~~. ~~As~~ (so) long as the unemployment

FOR NEGROES

rate ~~for Negroes~~ was still seven percent and ~~for teenagers~~ 10.9

FOR TEENAGERS (WERE STILL WANTING)

percent and three million would-be workers ~~holding~~ jobs.

~~WITH A CONFIDE~~

The lessening unemployment should be welcomed [confidently with a]

IN FULL AND CONFIDENT RECOGNITION OF ~~A~~ THE PROGRE[SS]

~~OF THE NEED TO SUSTAIN AND INTENSIFY~~

~~recognition that gives point to the combination of the greatest~~

WE CAN CONTINUE TO MAKE AS WE NOT ONLY SUSTAIN BUT INTENSIFY WHAT IS ALREADY THE GREATEST

public manpower training and retraining effort in our history

IN PARTNERSHIP WITH THE HEIGHTENED PROGRAMS OF MANPOWER TRAINING THAT HAVE

~~without with the stimulated traditional private sector organized~~

~~LONG BEEN A REGULAR~~ LONG PLAYED A LARGE ROLE IN PRIVATE INDUSTRIAL EF[FORT]

~~practice of manpower training~~. We expect our labor force to expa[nd]

(1.6 million WORKERS)

by ~~one billion, six hundred million workers~~ this year. This

EXPANSION NEED FOR CONTINUED IMPROVEMENT IN ~~to improve~~

~~accretion~~ and the ~~increasing~~ national ability to deal with probl[ems]

CONSTITUTE A PRESSING

of structural unemployment ~~are still a~~ challenge to job creation in the private sector.

come after Vietnam has been settled. We do not want to put the brakes on unnecessarily or too fast. We want to watch and weigh all developments carefully -- those that point up, and those that point to a levelling, and those that point down. We are watching carefully what happens to the President's budget in the appropriation process. It could move the budget from the posture of approximate balance to either a meaningful deficit or surplus. We are watching carefully events in Vietnam so as to determine whether or not the measures currently contemplated in the 1967 budget will be adequate to meet the situation as it develops. As the President said only last week he will not hesitate "to act quickly in the field of taxation if such action appears necessary."

works it will through the appropriation process.

The economic impact of this bill will begin to be felt almost immediately after the President signs and will build throughout the year -- withdrawing from private purchasing power a total of $2½ billion during calendar 1966.

All of us will be watching ... tax measures join together with the other forces that tend to moderate the growth of the private sector of the economy -- forces such as the Federal Reserve action a few months ago and the increase in Social Security and Medicare taxes at an annual rate of $6 billion which began to take effect last January.

As of now the Administration, whether practicing new economics or old, is shifting from a policy of steady stimulus to demand to a policy of moderate restraint to counter the cyclical consequences of the Vietnam situation, coming as it has at a time when our economy is scaling new peaks of achievement in moving toward our national economic goals.

But in shifting our policy, the Administration is very mindful of the continuing task of preserving and promoting continuous long-term growth, preserving competitive efficiency, and dealing with our balance of payments -- both now and in the period that will surely

(insert p. 24)

Since last fall I have been regularly calling attention to this factor and the upward drift in the wholesale price index for the first time in seven years -- mainly in the farm product and processed food categories which accounts for approximately two-thirds of the rise in that index from January of 1965 to January of this year.

raise additional revenues in the sum of approximately $6 billion during the remainder of this fiscal year 1966 and fiscal year 1967.

By adding these revenues to those which accrue naturally as fiscal dividends from the application of existing tax rates to a burgeoning economy, we expect the fiscal 1967 budget to pass or approach balance, whether measured by the administrative budget, the cash budget, or the income and production account budget -- providing, of course, that the totals reflected in the President's budget are not substantially increased as the Congress

OFFICE OF THE SECRETARY OF THE TREASURY

deployment in Southeast Asia, Secretary McNamara made this striking statement:

> "The Southeast Asia effort is unique in our military history. Never before has this nation or any other nation been able to deploy so large a force within so short a period of time, from 10,000 miles from the shore, without calling for reserves, without extending active duty tours, and without invoking the kind of strict economic controls normally associated with military emergencies."

There are many reasons for this, but one fundamental reason is simply that we are far better able today than we were in the Korean period to handle without excessive strain or dislocation than economic and military burdens ~~a conflict abroad~~ a conflict abroad such as the one in which we are now engaged. The $10.5 billion of additional expenditures for the Vietnam war scheduled for fiscal 1967 is (less than 1 1/2) per cent of [illegible] $722 gross national product for calendar 1966 [illegible] as a slightly conservative figure.

1967 over the level contemplated in Fiscal 1965, our defense expenditures in any one of these three years are lower in relation to our economic output than in any one of the preceding five years from 1960 through 1964.

Or, if one wishes to look at the total Federal budget in these terms, it rose from 15 percent of our output during the Korean War to 20.7 percent. In the three fiscal years 1965-1967 our total Federal budget, as a percentage of our output, will range from 14.9 percent to roughly 15.2 percent.

I am sure that against this statistical background this audience, sharp as it is with figures, will get my point which is simply this: our level of military preparedness at the beginning of the intensified Viet Nam conflict, and our ability to bear the burden of required military expenditures are vastly greater than they were at the time of the Korean conflict.

In his recent review of the military and supply

however -- the period during which all of the $\$10\frac{1}{2}$ billion increase in special Viet Nam expenditures is scheduled to occur -- our defense expenditures in the administrative budget will have risen from \$50.2 billion in 1965 to \$60.5 billion in 1967, or an increase of only

The figures for the total Federal budget tell exactly the same story. From fiscal 1950 to fiscal 1953, total expenditures in the administrative soared from \$39.5 billion to \$74.1 billion, a rise of 87 percent. Total expenditures in the current period -- the fiscal 1965- 67 period -- will grow by only 17 percent, from \$96.5 billion to \$112.9 billion.

of our national output in fiscal 1950 -- at the beginning of the Korean War -- to a peak of 14 percent of our output in fiscal 1953, or nearly three-fold over three years. From fiscal 1965 through fiscal 1967 our defense expenditures are scheduled to rise hardly at all as a percentage of our national output, going from 7.7 percent to just over 8 percent.

Equally revealing is the fact that, despite the scheduled ri of $\$10\frac{1}{2}$ billion in special Viet Nam expenditures in the fiscal y

Since the Korean War three administrations, under Presidents Eisenhower, Kennedy and Johnson, have maintained with great care and expense a highly modernized, up-to-date force in being designed to deal from a state of intensified preparedness with any situation which might develop.

I invite your attention and that of every American to the recent press statement of a man familiar to most of you in this audience by ~~xxx~~ reason of his former association with one of your great companies, Defense Secretary Robert McNamara, in which he outlined the situation in terms of military and logistical dispositions.

I will limit my comments to some interpretation of this meaning in economic terms.

In the regular administrative budget our defense expenditures rose drastically from $ (13.0 billion) in fiscal 1950 to $ (50.4 billion) in fiscal 1953, or an increase of 287 percent. From fiscal 1965 through fiscal 196

~~INSERT "B" ON PAGE 19~~

Nothing is better calculated to destroy the calmness, moderation and restraint necessary to crest our current problems without situation dislocation than to confuse the situation today with that which faced us during these two previous experiences. Having served as administrator ~~Administration~~ of the National Production Authority and the Defense Production Administration and as Director of the Office of Defense Mobilization during the height of the Korean mobilization period, the sharp contrast between THAT SITUATION AND THE ONE TODAY ~~the two periods~~ is particularly striking to me. Let me MAKE THAT CONTRAST CLEAR ~~see if I can translate it for you~~.

During the Korean War this nation carried out an intensive defense mobilization program for two purposes -- to wage the conflict in Korea and at the same time reset, restore and build up a military and industrial mobilization base, substantially dismantled after World War II, adequate to meet any escalation of the Korean War into a world conflict on the scale of World War

I have, today, no new facts to give you on our economic situation -- no new programs or policies to announce. You are well acquainted with the issues -- and, I am sure, with the arguments. What I wish to do, simply, is to put the whole discussion in proper perspective -- a perspective that I am firmly convinced is as often overlooked or ignored as it is profoundly required.

For one thing, let me make it absolutely clear that the scale of activities ~~going on today~~ in Vietnam ~~is actually~~ within our capacity to sustain without anything like the drastic measures required ~~in~~ the Korean War. What the situation ~~requires~~ is the exercise of responsible restraint on the part of all of us, for it somewhat limits our margin for economic error, our tolerance for economic excess and irresponsibility. But it does not require drastic taxation, direct price and wage controls, and all the disturbing paraphernalia of conversion to war that marked World War II and the Korean War.

Continued Insert on Page 17

Today, many in our country are disturbed that the situation in Vietnam -- against the backdrop of our other world-wide commitments, will either ~~lead to the abandonment of the~~ goals of a Great Society at home or ~~involve~~ the severe economic dislocation ~~attended~~ attendant upon war and inflation ~~as~~ THAT we have known in ~~times of~~ the past.

These are ~~both~~ legitimate and proper concerns. President Johnson answered them in his State of the Union message when he said:

"But we will not permit those who fire upon us in Vietnam to win a victory over the desires and the intentions of all the American people. This nation is mighty enough, its society is healthy enough, its people are strong enough, to pursue our goals in the rest of the world while still building a Great Society here at home."

Insert 1 on Page 17

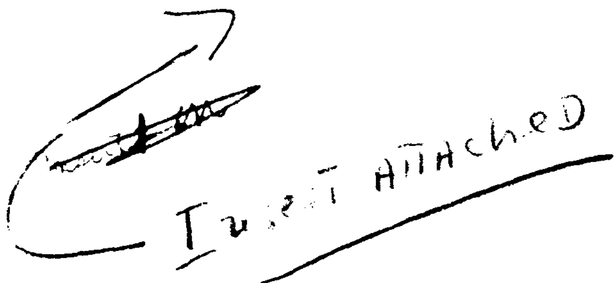
In all these ways, and more, we must lead and strive to share the burdens and responsibilities of leadership with other like-minded nations in helping better the world we share with all.

But in so doing we must recognize that, in the final analysis our ability to discharge our responsibilities of free world leadership will depend on how we act at home -- in maintaining a strong dynamic economy, in pursuing vigilantly our national economic goals of full employment, a healthy rate of growth, reasonable price stability and a balance in our international balance of payments -- in extending ever the boundaries of economic opportunity and social justice at home.

allies in bold new efforts to promote free trade, to strengthen the international monetary system, and to make available to needy peoples everywhere the opportunity and the means ~~for better health and nourishment~~, and for ~~[illegible]~~ education.

In all these ways, and more, we must continue to lead in helping better the world we share with others.

And we must do so in full understanding and acceptance of the fact that the requirements of Free World leadership will affect, and often profoundly, the conduct of our own domestic affairs -- as today the requirements of the war in Vietnam so profoundly affect the conduct of our domestic economy.



freedom cannot unite in its defense they lessen the chances for peaceful accommodation with those who are so fiercely united against it.

And we must continue -- together with other developed nations of the Free World -- to carry our share of the burden of leadership in the common task of helping the developing nations of the world to realize their destiny and enrich the lives of their people in dignity and freedom.

We must continue to seize every opportunity to strengthen and reinforce the fabric of Free World economic and financial cooperation. We must continue to work with other peoples in opening new vistas for world trade and development, financial cooperation, and the education and nourishment of peoples everywhere.

And we <u>are</u> taking the initiative in these endeavors --

assiduously in both quiet and public diplomacy

seeking ~~to fire the imaginations and engage the efforts of~~

to enlist the cooperation of our

freedom of our fellowman.

We must be willing to bear the burdens and accept the uncertainties that come with such a war as we fight in Vietnam. For Vietnam is a war of wills as well as a war of weapons. It is a test of our willingess to survive -- to surmount -- the strain of constant, continual conflict whose end is never clearly in sight.

It is a crucial test. And we cannot afford to fail, for if we do we shall fail ourselves as well as the people of South Vietnam -- if we do, we shall have undermined the faith of all whose freedom dependsupon us, we shall have undermined the web of alliances on which world peace and security depend, and we shall have undermined our own faith in ourselves.

We must live up to our commitment to the defense of freedom. At the same time, we must strive to enlarge and explore every avenue for unified action with our allies in the common defense -- for, indeed, to the extent that the allies of

Insert on Page 14

But in answering these questions in the affirmative we must ask ourselves another question -- what are some of the practices and ~~percepts~~ precepts of national greatness that must be reflected in our individual and collective attitudes if we are to back up our words with deeds. I shall touch only on a few.

freedom and a world in which tyranny cannot be imposed by aggression from without or subversion from within? Is it worth it to devote ~~so large a~~ share of our resources to help shape a world that day by day [illegible] hunger and disease and illiteracy ~~and greater in~~ economic and social ~~opportunity~~ ~~and accomplishment~~ and political freedom and order?

To ask these questions today is to answer them -- as we have for two long decades -- in the clear and unqualified affirmative, for that is the only answer a truly great nation can give that bears the burden of Free World leadership in an interdependent world.

We must continue to yield to no nation in the patient pursuit of peace and the works of peace -- and continue to demonstrate, as we do in Vietnam, that we have the will and the weapons to wage war, if wage war we must to defend our own freedom and the

own destinies.

We have understood -- and our accomplishments have proclaimed our understanding -- that with might must come maturity, with wealth and riches must come wisdom and responsibility, and with success must come sacrifice.

We do not say we have always been right. We do not say we have always been successful.

But no man and no nation can justly deny what history makes manifest: in the hour of need, we have not been found wanting.

And we will not be found wanting now.

We look back over the past two decades at all we have accomplished and at all its incalculable cost, and ask -- is it all worth the cost? Is it worth it to devote ~~so huge a~~ a portion of our human and material resources to the military effort required for the promotion and preservation of peace and

World Bank, the Marshall Plan, the Inter-American Development Bank, the Alliance for Progress, and now the Asian Development Bank. Through these multilateral efforts, through bilateral government aid, and through numerous private channels -- such as our private foundations and multi-national corporations -- we have devoted a vast share of our wealth and our resources to the task of helping others increase their share of the world's abundance. In the postwar decades we have contributed a net total of more than $100 billion of our national wealth to helping better the lives of others through our major government foreign assistance programs.

Indeed, in meeting the great challenges of our times, we have not been found wanting. Never in the memory of man has any nation done so much and at such great cost, not to gain dominion over the lives or the resources or the territory of others, but to help others arrive at full dominion over their

During thecurrent decade -- covering fiscal year 1961 through 1967 -- our expenditures for national defense, for space, RESEARCH AND TECHNOLOGY> and for interest on our debt (~~some ______ percent~~ THE BULK of which is the result of past wars) ~~has~~ HAVE accounted for a steady 69-70 percent, or nearly three-fourths, of our total annual expenditures.

Nor have we been found wanting on the second front -- where also we have led the way toward helping assure throughout the Free World the economic development and the social progress that alone will enable men to better their lives.

There has been in the decades since World War II no great multilateral organization or effort for peace and for the works of peace whose advent and whose accomplishments ~~does~~ DO not reflect, in large measure, our leadership and our support -- the United Nations, the International Monetary Fund, the

through the Southeast Asia Treaty Organization, aggression in Latin America through the Organization of American States, and aggression anywhere in the world through the United Nations.

We have measured up to the challenge -- we have made the required sacrifices, and we have borne the required costs. More than 33,000 Americans died on the battlefields of Korea -- and more than 103,000 were wounded. As of the end of last month, more than 2,000 Americans had died in Vietnam -- and more than 11,000 had been wounded.

And in the two decades since the end of World War II, we have spent vast sums of money to maintain our military security and that of the Free World. Our ~~military expenditures during decades~~ NATIONAL DEFENSE EXPEND IN THE REGULAR, OR ADMINISTRATIVE, BUDGET WILL add up to a staggering $ 790 BILLION BETWEEN FISCAL YEARS 1947 AND 1966.

On both of these fronts -- over a period of two decades and under the leadership of four Presidents -- ours is a record of the most unrelenting effort and the most enduring accomplishment toward the preservation of peace, the protection of freedom and the promotion of human rights and human welfare.

We have helped counter aggression in all its guises -- whether open or concealed -- on nearly every continent on the globe, in countries great and small -- in Greece, in Turkey and in Berlin; in Lebanon, in Iran and in India; in Taiwan, in the Congo, in Laos, and now in Vietnam.

We have sought, not to act alone and apart, but to join with other nations in forging effective alliances against aggression -- aggression in the Atlantic Community through the North Atlantic Treaty Organization, aggression in Southeast Asia and the Pacific

justice and freedom and well-being throughout the world.

To meet the great and common challenges before us -- the great and common opportunities as well as dangers -- will require of ourselves and our allies in the Free World the highest qualtities of leadership on two major fronts:

First, leadership in standing firm and united against Communist aggression and subversion with sufficient force and power to deter such efforts and to demonstrate beyond any doubt that they are far too unrewarding and dangerous to be worth the risk.

Second, leadership in assisting on a multilateral basis the new nations in their struggle to achieve both essential stability and sufficient progress toward meeting the rising needs and demands of their people.

at all, but the ultimate and unthinkable failure of global suicide, of worldwide ~~nuclear annihilation~~ revolution of blind annihilation -- or the toleration of misery and disorder in a dog-eat-dog world.

We must continue to meet these challenges -- by measuring up to our responsibilities as first among the nations of the Free World, by measuring up to the exacting and unceasing requirements of national greatness in this interdependent world.

These requirements and these responsibilities are not wholly ours to determine, nor are they ours alone to meet and to bear. They are determined by the realities and events of the world in which we live, realities and events which are often open to our influence but beyond our control. And they are shared by all the other nations of the Free World -- nations who cherish their freedom and independence no less than we, nations with whom we share the responsibilities for furthering the cause of peace and

of the world's more developed nations -- that considerably complicates the efforts of nations to work together on a multilateral basis to attack common problems and to achieve common objectives.

These are the overriding challenges that in the two critical decades since World War II have engaged so much of our energies and our resources and have affected so profoundly the course and character of our lives as well as the conduct of our national affairs. These are the overriding challenges that will continue to require our fullest energies and efforts for long hard years to come. For, surely there is not one of us who has not long ago shed -- if, indeed, we ever entertained -- the illusion that these challenges will surrender to any sudden or simple solution, unless it be that solution which is no solution.

<u>First</u>, the challenge posed by the Communist commitment to world conquest -- and in particular by the Communist effort to impose their will and extend their influence by outright aggression and by subversion backed by the threat of aggression.

<u>Second</u>, the challenge posed by the collapse of colonialism and the emergence of new nations -- thus far more than fifty in number -- coupled with the growing demands of underprivileged peoples everywhere for full and immediate deliverance from the hunger and the disease and the illiteracy and the grinding poverty that had ruled their lives for centuries.

<u>Third</u>, the challenge posed by the spreading outbreak of excessive nationalism -- most noticeable and understandable in the less developed countries, but highly visible as well in some

Here in this city and this region -- here in the very heartland of our national economic and industrial power -- I would like today to consider with you some of the rudimentary requirements and implications of national greatness in this interdependent world. I do so because I am firmly convinced that we can find adequate and appropriate answers to the many pressing questions now before us here at home only in the context of the broader but no less important question -- are they the answers of a great nation that fully understands and ~~[illegible]~~ ~~bears the responsibilities of~~ exercises Free World leadership in an interdependent world with courage and responsibility.

The challenges confronting that leadership are many, but these surely are three of the most basic:

Since that time the world has become increasingly interdependent as communications, travel and the movement of ideas, goods and people make our globe an ever smaller planet.

which was none of our making and not to our liking -- we withdrew from an international effort to preserve world order and freedom, and within two decades found ourselves embroiled in the far greater horror of World War II.

So today, as in all the years since the beginning of World War II, we carry out our responsibilities of leadership in the Free World -- in full awareness and full acceptance of all that those responsibilities require of us in a deeply interdependent world. None of us underestimates the gravity of those responsibilities, for each of us understands that the way in which the United States exercises its international leadership will do much to determine the future for the world and for succeeding generations of Americans.

labored, instead, to ~~conquer~~ develop our own ~~continent~~ country, and to secure our own borders, so that -- free of foreign entanglements -- we could pursue our dream of a Great Society in whose abundant life every man could share to the fullest measure of his desire and his ability.

But by the beginning of this century we had grown too great to live aloof and alone in a world grown so small. In such a world, as we have come to learn, any threat to freedom anywhere is a potential threat to our own freedom. In such a world, as we have come to learn, isolation offers only the illusion of security and strength -- but is, in reality, the course of greatest weakness and greatest danger.

For a while we retreated -- for a while we refused to accept the responsibility history had thrust upon us. In the 1920's, after the horror of World War I, we washed our hands of a world

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE ECONOMIC CLUB OF DETROIT
AT THE VETERANS MEMORIAL BUILDING, DETROIT, MICHIGAN
MONDAY, MARCH 14, 1966, 1:00 P.M., EST

When this nation was founded nearly two centuries ago, it was small in size, and poor in material goods or power -- but it knew riches beyond measure in the strength of its spirit and its courage, in the greatness of its ideals and its dreams.

Today, we know a greatness of power and wealth and influence that no nation in the world can equal or, indeed, approach.

And so, by the very immensity of our power and the strength of our ideals, we have come to bear upon our shoulders the mantle of Free World leadership.

We have not sought that leadership. Indeed, throughout much of our history as a nation, we have deliberately sought to avoid involvement in the volatile affairs of foreign powers. We have

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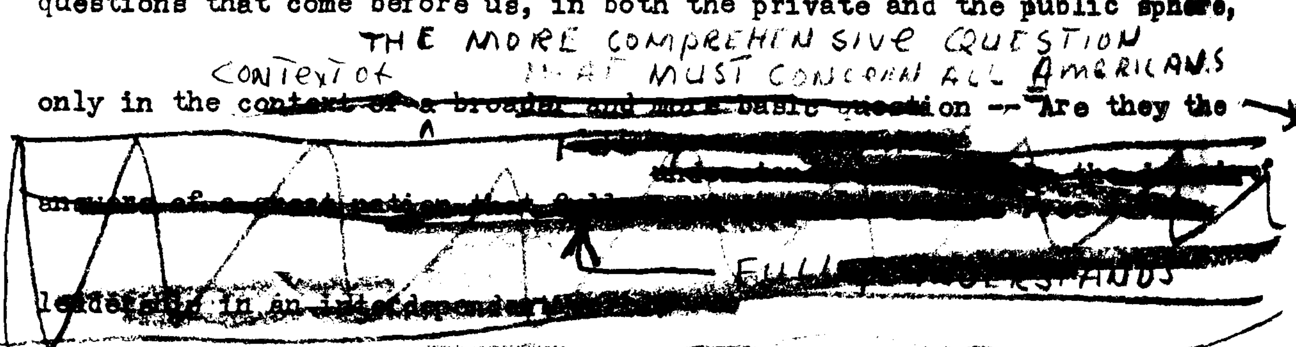
Here in this city and this region -- here in the very heartland of our national economic and industrial power, I would like today to consider with you some of the rudimentary requirements and implications of national greatness in the closely interdependent world in which we live.

I think it is important for those of us whose daily concerns are concentrated in the economic and financial sphere to pause now and then, and to look at our particular problems and pursuits in the broad perspective of national and international affairs. For I am convinced that we can find adequate and appropriate answers to the pressing economic questions that come before us, in both the private and the public sphere, only in the context of THE MORE COMPREHENSIVE QUESTION THAT MUST CONCERN ALL AMERICANS -- Are they the



answers of a great nation that fully accepts and fully exercises Free World leadership in our interdependent world?

TREASURY DEPARTMENT
Washington

FOR RELEASE P.M. NEWSPAPERS
MONDAY, MARCH 14, 1966

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For a while we retreated -- for a while we refused to accept the responsibility history had thrust upon us. In the 1920's after the horror of World War I, we washed our hands of a world which was none of our making and not to our liking -- we withdrew from an international effort to preserve world order and freedom, and within two decades found ourselves embroiled in the far greater horror of World War II.

Since that time, the world has become increasingly interdependent as communications, missiles, and the movement of ideas, goods and people make our globe an ever smaller planet.

So today, as in all the years since the beginning of World War II, we carry out our responsibilities of leadership in the Free World -- in full awareness and full acceptance of all that those responsibilities require of us in a deeply interdependent world. None of us underestimates the gravity of those responsibilities, for each of us understands that the way in which the United States exercises its international leadership will do much to determine the future for the world and for succeeding generations of Americans.

The challenges confronting that leadership are many, but these surely are three of the most basic:

> First, the challenge posed by the Communist commitment to world conquest -- and in particular by the Communist effort to impose their will and extend their influence by outright aggression and by subversion backed by the threat of aggression.
>
> Second, the challenge posed by the collapse of colonialism and the emergence of new nations -- thus far more than fifty in number -- coupled with the growing demands of underprivileged peoples everywhere for full and immediate deliverance from the hunger and the disease and the illiteracy and the grinding poverty that had ruled their lives for centuries.

> Third, the challenge posed by the spreading outbreak of excessive nationalism -- most noticeable and understandable in some of the less developed countries, but highly visible as well in some of the world's more developed nations -- that considerably complicates the efforts of nations to work together on a multilateral basis to attack common problems and to achieve common objectives.

These are the overriding challenges that have emerged in the two critical decades since World War II to engage so much of our energies and our resources and to affect so profoundly the course and character of our lives as well as the conduct of our national affairs. These are the overriding challenges that will continue to require our fullest energies and efforts for long, hard years to come. For, surely there is not one of us who has not long ago shed -- if, indeed, we ever entertained -- the illusion that these challenges will surrender to sudden or simple solutions.

We must continue to meet these challenges -- by measuring up to our responsibilities as first among the nations of the Free World, by measuring up to the exacting and unceasing requirements of national greatness in this interdependent world.

These requirements and these responsibilities are not wholly ours to determine, nor are they ours alone to meet and to bear. They are determined by the realities and events of the world in which we live, realities and events which are often open to our influence but beyond our control. And they are shared by all the other nations of the Free World -- nations who cherish their freedom and independence no less than we, nations with whom we share the responsibilities for furthering the cause of peace and justice and freedom and well-being throughout the world.

To meet the great and common challenges before us -- the great and common opportunities as well as dangers -- will require of ourselves and our allies in the Free World the highest qualities of leadership on two major fronts:

> First, leadership in standing firm and united against Communist aggression and subversion with sufficient force and power to deter such efforts and to demonstrate beyond any doubt that they are far too unrewarding and dangerous to be worth the risk.

Second, leadership in assisting on a multilateral basis the new nations in their struggle to achieve both essential stability and sufficient progress toward meeting the rising needs and demands of their people.

On both of these fronts -- over a period of two decades and under the leadership of four Presidents -- ours is a record of the most unrelenting effort and the most enduring accomplishment toward the preservation of peace, the protection of freedom and the promotion of human rights and human welfare.

We have helped counter aggression in all its guises -- whether open or concealed -- on nearly every continent on the globe, in countries great and small -- in Greece, in Turkey and in Berlin; in Lebanon, in Iran and in India; in Taiwan, in the Congo, in Laos, and now in Vietnam.

We have sought, not to act alone and apart, but to join with other nations in forging effective alliances against aggression -- aggression in the Atlantic Community through the North Atlantic Treaty Organization, aggression in Southeast Asia and the Pacific through the Southeast Asia Treaty Organization, aggression in Latin America through the Organization of American States, and aggression anywhere in the world through the United Nations.

We have measured up to the challenge -- we have made the required sacrifices, and we have borne the required costs. More than 33,000 Americans died on the battlefields of Korea -- and more than 103,000 were wounded. As of the end of last month, more than 2,000 Americans had died in Vietnam -- and more than 11,000 had been wounded.

And in the two decades since the end of World War II, we have spent vast sums of money to maintain our military security and that of the Free World. Our national defense expenditures in the regular, or administrative, Budget will add up to a staggering $790 billion between fiscal years 1947 and 1966.

During the current decade -- covering fiscal year 1961 through 1967 -- our expenditures for national defense, for space, research and technology, and for interest on our debt (the bulk of which is the result of past wars) have accounted for a steady 69-70 percent, or nearly three-fourths, of our total annual expenditures.

Nor have we been found wanting on the second front -- where also we have led the way toward helping assure throughout the Free World the economic development and the social progress that alone will enable men to better their lives.

There has been in the decades since World War II no great multilateral organization or effort for peace and for the works of peace whose advent and whose accomplishments do not reflect, in large measure, our leadership and our support -- the United Nations, the International Monetary Fund, the World Bank, the Marshall Plan, the Inter-American Development Bank, the Alliance for Progress, and now the Asian Development Bank. Through these multilateral efforts, through bilateral government aid, and through numerous private channels -- such as our private foundations and multi-national corporations -- we have devoted a vast share of our wealth and our resources to the task of helping others increase their share of the world's abundance. In the postwar decades we have contributed a net total of some $100 billion of our national wealth to helping better the lives of others through our major government foreign assistance programs.

Indeed, in meeting the great challenges of our times, we have not been found wanting. Never in the memory of man has any nation done so much and at such great cost, not to gain dominion over the lives or the resources or the territory of others, but to help others gain full and free dominion over their own destinies.

We have understood -- and our accomplishments have proclaimed our understanding -- that with might must come maturity, with wealth and riches must come wisdom and responsibility, and with success must come sacrifice.

We do not say we have always been right. We do not say we have always been successful.

But no man and no nation can justly deny what history makes manifest: in the hour of need, we have not been found wanting.

And we will not be found wanting now.

We look back over the past two decades at all we have accomplished and at all its incalculable cost, and ask -- is it all worth the cost? Is it worth it to devote a portion of our human and material resources to the military effort required for the promotion and preservation of peace and freedom and a

world in which tyranny cannot be imposed by aggression from without or subversion from within? Is it worth it to devote a share of our resources to help shape a world that will day by day witness nations, new and old, beat back the tides of hunger and disease and illiteracy in an atmosphere of economic and social progress and of political freedom and order?

To ask these questions today is to answer them -- as we have for two long decades under four great Presidents -- in the clear and unqualified affirmative, for that is the only answer a truly great nation can give that bears the burden of Free World leadership in an interdependent world.

But in answering these questions in the affirmative we must ask ourselves another question -- What are some of the practices and precepts of national greatness that must be reflected in our individual and collective attitudes if we are to back up our words with deeds? I shall touch only on a few.

We must continue to yield to no nation in the patient pursuit of peace and the works of peace -- and continue to demonstrate, as we do in Vietnam, that we have the will and the weapons to wage war, if wage war we must to defend our own freedom and the freedom of our fellowman.

We must be willing to bear the burdens and accept the uncertainties that come with such a war as we fight in Vietnam. For Vietnam is a war of wills as well as a war of weapons. It is a test of our willingness to survive -- to surmount -- the strain of constant, continual conflict whose end is never clearly in sight.

It is a crucial test. And we cannot afford to fail, for if we do we shall fail ourselves as well as the people of South Vietnam -- if we do, we shall have undermined the faith of all whose freedom depends upon us, we shall have undermined the web of alliances on which world peace and security depend, and we shall have undermined our own faith in ourselves.

We must live up to our commitment to the defense of freedom. At the same time, we must strive to enlarge and explore every avenue for unified action with our allies in the common defense -- for, indeed, to the extent that the allies of freedom cannot unite in its defense they lessen the chances for peaceful accommodation with those who are so fiercely united against it.

And we must continue -- together with other developed nations of the Free World -- to carry our share of the burden of leadership in the common task of helping the developing nations of the world to realize their destiny and enrich the lives of their people in dignity and freedom.

We must continue to seize every opportunity to strengthen and reinforce the fabric of Free World economic and financial cooperation. We must continue to work with other peoples in opening new vistas for world trade and development, financial cooperation, and the education and nourishment of peoples everywhere.

And we <u>are</u> taking the initiative in these endeavors -- seeking assiduously in both quiet and public diplomacy to enlist the cooperation of our allies in bold new efforts to promote free trade, to strengthen the international monetary system, and to make available to needy peoples everywhere the opportunity and the means and the incentives for conquering hunger and disease, and for living under the liberating light of education and knowledge.

In all these ways, and more, we must continue in company with other like-minded nations to lead the way in helping better the world we share with all.

But in so doing we must recognize that, in the final analysis, our ability to discharge our responsibilities of Free World leadership will depend on how we act at home -- in maintaining a strong and dynamic economy -- in pursuing vigilantly our national economic goals of full employment, a healthy rate of growth, reasonable price stability and a balance in our international payments -- in extending always for our own citizens the boundaries of economic opportunity and social justice.

Today, many in our country are disturbed that the situation in Vietnam -- against the backdrop of our other world-wide commitments -- will require us either to abandon our goals of a Great Society at home or suffer the severe economic dislocation attendant upon war and inflation that we have known in the past.

These are legitimate and proper concerns. President Johnson answered them in his State of the Union Message when he said:

"But we will not permit those who fire upon us in Vietnam to win a victory over the desires and the intentions of all the American people. This nation is mighty enough, its society is healthy enough, its people are strong enough, to pursue our goals in the rest of the world while still building a Great Society here at home."

I have, today, no new facts to give you on our economic situation -- no new programs or policies to announce. You are well acquainted with the issues -- and, I am sure, with the arguments. What I wish to do, simply, is to put the whole current discussion in proper perspective -- a perspective that I am firmly convinced is as often overlooked or ignored as it is profoundly required.

For one thing, let me make it absolutely clear that both the present scale of activities in Vietnam -- and the prospective scale insofar as those closest to it can foresee -- remain within our capacity to sustain without anything like the drastic measures required during the period of the Korean War.

What the situation does require is the exercise of calmness, moderation, and responsible restraint on the part of all of us, for it somewhat limits our margin for economic error, and narrows our tolerance for economic excess and irresponsibility. But it does not require drastic taxation, direct price and wage controls, and all the disturbing paraphernalia of conversion to war that marked World War II and the Korean War.

Nothing is better calculated to destroy the calmness, moderation and restraint necessary to crest our current problems without retreat or dislocation than to confuse the situation today with that which faced us during these two previous experiences. Having served as Administrator of the National Production Authority and the Defense Production Administration and as Director of the Office of Defense Mobilization during the height of the Korean mobilization period, the sharp contrast between that situation and the one today is particularly striking to me. Let me make that contrast clear.

During the Korean War this nation carried out an intensive defense mobilization program for two purposes -- to wage the conflict in Korea and at the same time reset, restore and build up a military and industrial mobilization base, substantially dismantled after World War II, adequate to meet any escalation of the Korean War into a world conflict on the scale of World War II.

Since the Korean War three administrations, under Presidents Eisenhower, Kennedy and Johnson, have maintained with great care and expense a highly modernized, up-to-date force in being designed to deal from a state of intensified preparedness with any situation which might develop.

I invite your attention and that of every American to the recent press statement of a man familiar to most of you in this audience by reason of his former association with one of your great companies, Defense Secretary Robert McNamara, in which he outlined the situation in terms of military and logistical dispositions.

I will limit my comments to some interpretation of this situation in economic terms.

In the regular administrative budget our defense expenditures rose drastically from $13.0 billion in fiscal 1950 to $50.4 billion in fiscal 1953, or an increase of 287 percent. From fiscal 1965 through fiscal 1967, however -- the period during which all of the $10½ billion increase in special Vietnam expenditures is scheduled to occur -- our defense expenditures in the administrative budget will have risen from $50.2 billion in 1965 to $60.5 billion in 1967, or an increase of only 21 percent.

The figures for the total Federal budget tell exactly the ame story. From fiscal 1950 to fiscal 1953, total expenditures in the dministrative budget soared from $39.5 billion to $74.1 billion, rise of 87 percent. Total expenditures in the current eriod -- the fiscal 1965- 67 period -- will grow by only 7 percent, from $96.5 billion to $112.9 billion.

Let us look at this disparity of increases in volume in erms of its toll on our national output.

Defense expenditures in the Korean War rose from 4.9 ercent of our national output in fiscal 1950 -- at the eginning of the Korean War -- to a peak of 14 percent of our utput in fiscal 1953, or nearly three-fold over three years. rom fiscal 1965 through fiscal 1967 our defense expenditures re scheduled to rise hardly at all as a percentage of our tional output, going from 7.7 percent to just over 8 percent.

Equally revealing is the fact that, despite the scheduled rise of $10½ billion in special Vietnam expenditures in the fiscal year 1967 over the level contemplated in fiscal 1965, our defense expenditures in any one of these three years are lower in relation to our economic output than in any one of the preceding five years from 1960 through 1964.

Or, if one wishes to look at the total Federal budget in these terms, it rose during the Korean War from 15 percent of our output to 20.7 percent. Yet in the three fiscal years 1965-1967 our total Federal budget, as a percentage of our output, will show only a negligible rise from a relatively low 14.9 percent to just over 15 percent.

I am sure that against this statistical background this audience, astute as it is with figures, perfectly understands my point, which is simply this: our level of military preparedness at the beginning of the intensified Vietnam conflict, and our ability to bear the burden of required military expenditures, are vastly greater than they were at the time of the Korean conflict.

In his recent review of the military and supply deployment in Southeast Asia, Secretary McNamara made this striking statement:

> "The Southeast Asia effort is unique in our military history. Never before has this nation or any other nation been able to deploy so large a force within so short a period of time, some 10,000 miles from our shores, without calling for reserves, without extending active duty tours, and without invoking the kinds of strict economic controls normally associated with military emergencies."

There are many reasons for this, but one fundamental reason is simply that we are far better able today than we were in the Korean period to handle without excessive strain or dislocation the economic and military burdens of a conflict abroad such as the one in which we are now engaged. The $10.5 billion of additional expenditures for the Vietnam War scheduled for fiscal 1967 is less than 1½ percent of the $722 billion gross national product originally projected for calendar 1966, and now viewed by most as a slightly conservative figure.

Unquestionably, we must guard with unrelenting vigilance against the danger of inflation in an economy closer to full employment and full utilization of productive capacity than at any time in many years. Since last fall I have been regularly calling attention to this factor and the upward drift in the wholesale price index for the first time in seven years -- mainly in the farm product and processed food categories, which account for approximately two-thirds of the rise in that index from January of 1965 to January of this year. As I have said repeatedly on many occasions since last fall the situation also requires all of us -- government, business, labor and the individual citizen -- to accept our responsibilities, exercise due restraint, and exemplify the moderation expected of a great and confident people.

The Congress is completing action this week on the President's tax proposals, which are designed to raise additional revenues in the sum of approximately $6 billion during the remainder of this fiscal year 1966 and fiscal year 1967.

By adding these revenues to those which arise naturally as fiscal dividends from the application of existing tax rates to a burgeoning economy, we expect the fiscal 1967 budget to pass or approach balance, whether measured by the administrative budget, the cash budget, or the income and production account budget -- providing, of course, that the totals reflected in the President's budget are not substantially increased as the Congress works its will through the appropriation process.

The economic impact of this bill will begin to be felt almost immediately after the President signs it and will build throughout the year -- withdrawing from private purchasing power a total of $2.7 billion during calendar 1966.

All of us will be watching with interest as these new tax measures join together with the other forces that tend to moderate the growth of the private sector of the economy -- forces such as the Federal Reserve action a few months ago and the increase in Social Security and Medicare taxes at an annual rate of $6 billion which began to take effect last January.

As of now the Administration, whether practicing new economics or old, is shifting from a policy of steady stimulus to demand to a policy of moderate restraint to counter the cyclical consequences of the Vietnam situation, coming as it has at a time when our economy is scaling new peaks of achievement in moving toward our national economic goals.

But in shifting our policy, the Administration is very mindful of the continuing task of preserving and promoting continuous long-term growth, pursuing competitive efficiency, and dealing with our balance of payments -- both now and in the period that will surely come after Vietnam has been settled.

The announcement last week that unemployment had dwindled to less than four percent (3.7 percent) in February -- the lowest point in more than 12 years -- should not be greeted with jitters. That is not the reaction of a great nation as long as the unemployment rate was still seven percent for Negroes and 10.9 percent for teenagers and three million would-be workers were still wanting jobs. The lessening unemployment should be welcomed in full and confident recognition of the progress we can continue to make as we not only sustain, but intensify what is already the greatest public manpower training and retraining effort in our history in partnership with the heightened programs of manpower training that have long played a large role in private industrial effort. We expect our labor force to expand by 1.6 million workers this year. This expansion, and the need for continued improvement in our national ability to deal with problems of structural unemployment, constitute a pressing challenge to job creation in the private sector.

Likewise, the realization that the large amounts of idle and obsolete productive capacity which characterized the American scene too much in the last decade have been whittled away by increasing demand and investment should not be a cause for gloom. Coming on stream in 1966 are vast quantities of new industrial capacity reflecting the most modern and up-to-date technology. These are the fruits of investment made in recent years, and the fact that this type of activity promises to continue in 1966 should not be viewed entirely with alarm.

We do not want to put the brakes on unnecessarily or too fast. We want to watch and weigh all developments carefully -- those that point up, and those that point to a levelling, and those that point down. We are watching carefully what happens to the President's budget in the appropriation process. It could move the budget from the posture of approximate balance to either a meaningful deficit or surplus. We are watching carefully events in Vietnam so as to determine whether or not the measures currently contemplated in the 1967 budget will be adequate to meet the situation as it develops. As the President said only last week he will not hesitate "to act quickly in the field of taxation if such action appears necessary."

While we in Treasury have been continuing our contingency planning in that field in which we are at all times regularly engaged, I welcome the announcement over the weekend that a Subcommittee of the Joint Economic Committee of the Congress, chaired by Congresswoman Martha W. Griffiths of Detroit, will open hearings this Wednesday to consider -- and I quote -- "the need for and design of temporary tax changes which could be enacted promptly in response to a recognized need for stimulating or restraining the economy." In appearing before the Joint Economic Committee on February 3, I had suggested that the House Ways and Means Committee or the Joint Economic Committee study and recommend the type of tax increases most suitable should inflationary pressures require additional fiscal action.

In the meantime, we must all understand that whether or not such action will be required will -- in large measure -- depend on how all of us, in government and in the private economy, exercise our clear responsibilities for restraint and moderation. As I have tried to demonstrate, these responsibilities -- while they take on new urgency in the context of our buoyant economy and of the struggle in Vietnam -- are not something newly invented to make business leaders unhappy or labor leaders irate or the lives of all of us more difficult. These responsibilities, on the contrary, are but the inevitable and natural consequence of the responsibility that we as a nation -- that every single one of us as Americans -- must bear for Free World leadership.

For the Federal government these responsibilities require the kind of firm and effective restraint so fully displayed in the budgets President Johnson has presented. For you in the private sector these responsibilities above all require -- as a matter of plain national need -- that you continue to follow the path of restraint so clearly mapped out in the wage-price guideposts of the President's Council of Economic Advisers. While I cannot overemphasize the importance today of adhering to these guideposts, I know that my colleague, Gardner Ackley, has recently explored this subject with you in some depth.

Instead, I want to avail myself of the pleasure and privilege of paying tribute to the host of this meeting -- the distinguished president of Chrysler Corporation, Mr. Lynn Townsend -- and to many in this audience for a very special contribution, of particular importance to my Department, that they are making to a sound and strong America.

For today, March 14, marks the announcement of the "1966 Business Bondwagon" campaign, which is the brainchild of Lynn Townsend in his capacity as Chairman of the nationwide Industrial Payroll Savings Committee.

Prior to today's announcement, members of that Committee -- such as Detroit area Chairman, Mr. A. P. Fontaine, and chairmen in other cities throughout the nation -- have been enlisting the campaign support of the top executives of their major companies.

I know that Mr. Townsend and the members of his Committee are volunteering much of their time, talents and resources to this campaign. I know, too, that the members of this audience are all active -- or will be active -- in supporting this campaign, for you represent the executive leadership whose efforts are so essential to the Payroll Savings drive throughout industry in Detroit and elsewhere in the nation.

The goal of the nationwide Committee is to spearhead the enrollment of at least 1,200,000 new Payroll Savers during 1966, the 25th or Silver Anniversary year of the Savings Bonds program.

I need not tell you how important it is to reach -- even exceed -- that goal. For every dollar that goes into United States savings bonds does double duty in the fight against inflation -- for it not only diminishes the private spending stream but strengthens our ability to finance our national debt in a noninflationary manner. At the same time, the savings bonds program -- and the payroll savings plan in particular -- help all who participate to enhance their own personal financial well-being and establish the sound financial habit of systematic savings.

The Savings Bonds program is one way -- and an important way -- in which you, and all Americans, can demonstrate that in deed as in ideal, in performance as in promise, we are a nation of greatness -- a nation willing and worthy to bear the responsibilities for leadership in an interdependent world.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, March 14, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bill one series to be an additional issue of the bills dated December 16, 1965, and the othe series to be dated March 17, 1966, which were offered on March 9, 1966, were opened at Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of t two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing June 16, 1966		182-day Treasury bills maturing September 15, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.813	4.696%	97.519 a/	4.907%
Low	98.805	4.727%	97.513	4.919%
Average	98.807	4.718% 1/	97.515	4.915% 1/

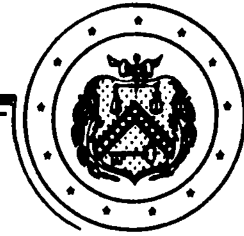
a/ Excepting 1 tender of $50,000
69 % of the amount of 91-day bills bid for at the low price was accepted
4 % of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 24,142,000	$ 13,592,000	$ 9,209,000	$ 4,009,00
New York	1,498,124,000	751,572,000	1,853,179,000	616,671,00
Philadelphia	35,544,000	17,049,000	21,462,000	7,197,00
Cleveland	30,685,000	28,541,000	116,474,000	53,374,00
Richmond	13,839,000	13,836,000	16,152,000	5,202,00
Atlanta	50,327,000	28,603,000	43,886,000	9,562,00
Chicago	426,983,000	295,646,000	359,473,000	149,342,00
St. Louis	64,319,000	40,399,000	36,474,000	12,074,00
Minneapolis	20,889,000	13,767,000	12,283,000	6,883,00
Kansas City	27,260,000	25,120,000	15,037,000	12,751,00
Dallas	25,904,000	14,504,000	15,152,000	10,002,00
San Francisco	102,281,000	58,135,000	268,778,000	115,726,00
TOTALS	$2,320,297,000	$1,300,764,000 b/	$2,767,559,000	$1,002,793,00

b/ Includes $281,601,000 noncompetitive tenders accepted at the average price of 98.8
c/ Includes $138,317,000 noncompetitive tenders accepted at the average price of 97.5
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.84% for the 91-day bills, and 5.11% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, March 14, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, series to be an additional issue of the bills dated December 16, 1965, and the other es to be dated March 17, 1966, which were offered on March 9, 1966, were opened at the ral Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of ay bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing June 16, 1966		182-day Treasury bills maturing September 15, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.813	4.696%	97.519 a/	4.907%
Low	98.805	4.727%	97.513	4.919%
Average	98.807	4.718% 1/	97.515	4.915% 1/

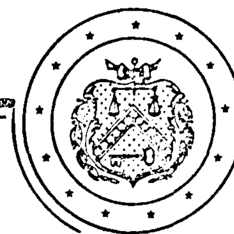
a/ Excepting 1 tender of $50,000
9 % of the amount of 91-day bills bid for at the low price was accepted
4 % of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 24,142,000	$ 13,592,000	$ 9,209,000	$ 4,009,000
York	1,498,124,000	751,572,000	1,853,179,000	616,671,000
ladelphia	35,544,000	17,049,000	21,462,000	7,197,000
veland	30,685,000	28,541,000	116,474,000	53,374,000
hmond	13,839,000	13,836,000	16,152,000	5,202,000
anta	50,327,000	28,603,000	43,886,000	9,562,000
cago	426,983,000	295,646,000	359,473,000	149,342,000
Louis	64,319,000	40,399,000	36,474,000	12,074,000
neapolis	20,889,000	13,767,000	12,283,000	6,883,000
sas City	27,260,000	25,120,000	15,037,000	12,751,000
las	25,904,000	14,504,000	15,152,000	10,002,000
Francisco	102,281,000	58,135,000	268,778,000	115,726,000
TOTALS	$2,320,297,000	$1,300,764,000 b/	$2,767,559,000	$1,002,793,000 c/

:ludes $281,601,000 noncompetitive tenders accepted at the average price of 98.807
:ludes $138,317,000 noncompetitive tenders accepted at the average price of 97.515
:se rates are on a bank discount basis. The equivalent coupon issue yields are
4% for the 91-day bills, and 5.11% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 14, 1966

MEMORANDUM FOR THE PRESS:

Secretary of the Treasury Henry H. Fowler's remarks at the 1966 Chicago Area Savings Bond Campaign Luncheon, Chicago, Illinois, Tuesday, March 15, 1966, 12:00 Noon, CST, will be read by Frederick L. Deming, Under Secretary of the Treasury for Monetary Affairs.

Text attached.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE 1966 CHICAGO AREA SAVINGS BOND CAMPAIGN LUNCHEON
THE PALMER HOUSE, CHICAGO, ILLINOIS
TUESDAY, MARCH 15, 1966, 12:00 NOON CST

Here in this city and this region -- here in the very heartland of our national economic and industrial power, I would like today to consider with you some of the rudimentary requirements and implications of national greatness in the closely interdependent world in which we live.

I think it is important for those of us whose daily concerns are concentrated in the economic and financial sphere to pause now and then, and to look at our particular problems and pursuits in the broad perspective of national and international affairs. For I am convinced that we can find adequate and appropriate answers to the pressing economic questions that come before us, in both the private and the public sphere, only in the context of the more comprehensive question that must concern all Americans -- Are they the answers of a great nation that fully accepts and fully exercises Free World leadership in our interdependent world?

When this nation was founded nearly two centuries ago, it was small in size, and poor in material goods or power -- but it knew riches beyond measure in the strength of its spirit and its courage, in the greatness of its ideals and its dreams.

Today, we know a greatness of power and wealth and influence that no nation in the world can equal or, indeed, approach.

And so, by the very immensity of our power and the strength of our ideals, we have come to bear upon our shoulders the mantle of Free World leadership.

We have not sought that leadership. Indeed, throughout much of our history as a nation, we have deliberately sought to avoid involvement in the volatile affairs of foreign powers. We have labored, instead, to develop our own country, and to secure our own borders, so that -- free of foreign entangelemts --

we could pursue our dream of a Great Society in whose abundant life every man could share to the fullest measure of his desire and his ability.

But by the beginning of this century we had grown too great to live aloof and alone in a world grown so small. In such a world, as we have come to learn, any threat of freedom anywhere is a potential threat to our own freedom. In such a world, as we have come to learn, isolation offers only the illusion of security and strength -- but is, in reality, the course of greatest weakness and greatest danger.

For a while we retreated -- for a while we refused to accept the responsibility history had thrust upon us. In the 1920's after the horror of World War I, we washed our hands of a world which was none of our making and not to our liking -- we withdrew from an international effort to preserve world order and freedom, and within two decades found ourselves embroiled in the far greater horror of World War II.

Since that time, the world has become increasingly interdependent as communications, missiles, and the movement of ideas, goods and people make our globe an ever smaller planet.

So today, as in all the years since the beginning of World War II, we carry out our responsibilities of leadership in the Free World -- in full awareness and full acceptance of all that those responsibilities require of us in a deeply interdependent world. None of us underestimates the gravity of those responsibilities, for each of us understands that the way in which the United States exercises its international leadership will do much to determine the future for the world and for succeeding generations of Americans.

The challenges confronting that leadership are many, but these surely are three of the most basic:

> _First_, the challenge posed by the Communist commitment to world conquest -- and in particular by the Communist effort to impose their will and extend their influence by outright aggression and by subversion backed by the threat of aggression.
>
> _Second_, the challenge posed by the collapse of colonialism and the emergence of new nations -- thus far more than fifty in number -- coupled with the growing demands of underprivileged peoples everywhere for full and immediate deliverance from the hunger and the disease and the illiteracy and the grinding poverty that had ruled their lives for centuries.

> Third, the challenge posed by the spreading outbreak of excessive nationalism -- most noticeable and understandable in some of the less developed countries, but highly visible as well in some of the world's more developed nations -- that considerably complicates the efforts of nations to work together on a multilateral basis to attack common problems and to achieve common objectives.

These are the overriding challenges that have emerged in the two critical decades since World War II to engage so much of our energies and our resources and to affect so profoundly the course and character of our lives as well as the conduct of our national affairs. These are the overriding challenges that will continue to require our fullest energies and efforts for long, hard years to come. For, surely there is not one of us who has not long ago shed -- if, indeed, we ever entertained -- the illusion that these challenges will surrender to sudden or simple solutions.

We must continue to meet these challenges -- by measuring up to our responsibilities as first among the nations of the Free World, by measuring up to the exacting and unceasing requirements of national greatness in this interdependent world.

These requirements and these responsibilities are not wholly ours to determine, nor are they ours alone to meet and to bear. They are determined by the realities and events of the world in which we live, realities and events which are often open to our influence but beyond our control. And they are shared by all the other nations of the Free World -- nations who cherish their freedom and independence no less than we, nations with whom we share the responsibilities for furthering the cause of peace and justice and freedom and well-being throughout the world.

To meet the great and common challenges before us -- the great and common opportunities as well as dangers -- will require of ourselves and our allies in the Free World the highest qualities of leadership on two major fronts:

> First, leadership in standing firm and united against Communist aggression and subversion with sufficient force and power to deter such efforts and to demonstrate beyond any doubt that they are far too unrewarding and dangerous to be worth the risk.

Second, leadership in assisting on a multilateral basis the new nations in their struggle to achieve both essential stability and sufficient progress toward meeting the rising needs and demands of their people.

On both of these fronts -- over a period of two decades and under the leadership of four Presidents -- ours is a record of the most unrelenting effort and the most enduring accomplishment toward the preservation of peace, the protection of freedom and the promotion of human rights and human welfare.

We have helped counter aggression in all its guises -- whether open or concealed -- on nearly every continent on the globe, in countries great and small -- in Greece, in Turkey and in Berlin; in Lebanon, in Iran and in India; in Taiwan, in the Congo, in Laos, and now in Vietnam.

We have sought, not to act alone and apart, but to join with other nations in forging effective alliances against aggression -- aggression in the Atlantic Community through the North Atlantic Treaty Organization, aggression in Southeast Asia and the Pacific through the Southeast Asia Treaty Organization, aggression in Latin America through the Organization of American States, and aggression anywhere in the world through the United Nations.

We have measured up to the challenge -- we have made the required sacrifices, and we have borne the required costs. More than 33,000 Americans died on the battlefields of Korea -- and more than 103,000 were wounded. As of the end of last month, more than 2,000 Americans had died in Vietnam -- and more than 11,000 had been wounded.

And in the two decades since the end of World War II, we have spent vast sums of money to maintain our military security and that of the Free World. Our national defense expenditures in the regular, or administrative, Budget will add up to a staggering $790 billion between fiscal years 1947 and 1966.

During the current decade -- covering fiscal year 1961 through 1967 -- our expenditures for national defense, for space, research and technology, and for interest on our debt (the bulk of which is the result of past wars) have accounted for a steady 69-70 percent, or nearly three-fourths, of our total annual expenditures.

Nor have we been found wanting on the second front -- where also we have led the way toward helping assure throughout the Free World the economic development and the social progress that alone will enable men to better their lives.

There has been in the decades since World War II no great multilateral organization or effort for peace and for the works of peace whose advent and whose accomplishments do not reflect, in large measure, our leadership and our support -- the United Nations, the International Monetary Fund, the World Bank, the Marshall Plan, the Inter-American Development Bank, the Alliance for Progress, and now the Asian Development Bank. Through these multilateral efforts, through bilateral government aid, and through numerous private channels -- such as our private foundations and multi-national corporations -- we have devoted a vast share of our wealth and our resources to the task of helping others increase their share of the world's abundance. In the postwar decades we have contributed a net total of some $100 billion of our national wealth to helping better the lives of others through our major government foreign assistance programs.

Indeed, in meeting the great challenges of our times, we have not been found wanting. Never in the memory of man has any nation done so much and at such great cost, not to gain dominion over the lives or the resources or the territory of others, but to help others gain full and free dominion over their own destinies.

We have understood -- and our accomplishments have proclaimed our understanding -- that with might must come maturity, with wealth and riches must come wisdom and responsibility, and with success must come sacrifice.

We do not say we have always been right. We do not say we have always been successful.

But no man and no nation can justly deny what history makes manifest: in the hour of need, we have not been found wanting.

And we will not be found wanting now.

We look back over the past two decades at all we have accomplished and at all its incalculable cost, and ask -- is it all worth the cost? Is it worth it to devote a portion of our human and material resources to the military effort required for the promotion and preservation of peace and freedom and a

world in which tyranny cannot be imposed by aggression from without or subversion from within? Is it worth it to devote a share of our resources to help shape a world that will day by day witness nations, new and old, beat back the tides of hunger and disease and illiteracy in an atmosphere of economic and social progress and of political freedom and order?

To ask these questions today is to answer them -- as we have for two long decades under four great Presidents -- in the clear and unqualified affirmative, for that is the only answer a truly great nation can give that bears the burden of Free World leadership in an interdependent world.

But in answering these questions in the affirmative we must ask ourselves another question -- What are some of the practices and precepts of national greatness that must be reflected in our individual and collective attitudes if we are to back up our words with deeds? I shall touch only on a few.

We must continue to yield to no nation in the patient pursuit of peace and the works of peace -- and continue to demonstrate, as we do in Vietnam, that we have the will and the weapons to wage war, if wage war we must to defend our own freedom and the freedom of our fellowman.

We must be willing to bear the burdens and accept the uncertainties that come with such a war as we fight in Vietnam. For Vietnam is a war of wills as well as a war of weapons. It is a test of our willingness to survive -- to surmount -- the strain of constant, continual conflict whose end is never clearly in sight.

It is a crucial test. And we cannot afford to fail, for if we do we shall fail ourselves as well as the people of South Vietnam -- if we do, we shall have undermined the faith of all whose freedom depends upon us, we shall have undermined the web of alliances on which world peace and security depend, and we shall have undermined our own faith in ourselves.

We must live up to our commitment to the defense of freedom. At the same time, we must strive to enlarge and explore every avenue for unified action with our allies in the common defense -- for, indeed, to the extent that the allies of freedom cannot unite in its defense they lessen the chances for peaceful accommodation with those who are so fiercely united against it.

And we must continue -- together with other developed nations of the Free World -- to carry our share of the burden of leadership in the common task of helping the developing nations of the world to realize their destiny and enrich the lives of their people in dignity and freedom.

We must continue to seize every opportunity to strengthen and reinforce the fabric of Free World economic and financial cooperation. We must continue to work with other peoples in opening new vistas for world trade and development, financial cooperation, and the education and nourishment of peoples everywhere.

And we _are_ taking the initiative in these endeavors -- seeking assiduously in both quiet and public diplomacy to enlist the cooperation of our allies in bold new efforts to promote free trade, to strengthen the international monetary system, and to make available to needy peoples everywhere the opportunity and the means and the incentives for conquering hunger and disease, and for living under the liberating light of education and knowledge.

In all these ways, and more, we must continue in company with other like-minded nations to lead the way in helping better the world we share with all.

But in so doing we must recognize that, in the final analysis, our ability to discharge our responsibilities of Free World leadership will depend on how we act at home -- in maintaining a strong and dynamic economy -- in pursuing vigilantly our national economic goals of full employment, a healthy rate of growth, reasonable price stability and a balance in our international payments -- in extending always for our own citizens the boundaries of economic opportunity and social justice.

Today, many in our country are disturbed that the situation in Vietnam -- against the backdrop of our other world-wide commitments -- will require us either to abandon our goals of a Great Society at home or suffer the severe economic dislocation attendant upon war and inflation that we have known in the past.

These are legitimate and proper concerns. President Johnson answered them in his State of the Union Message when he said:

"But we will not permit those who fire upon us in Vietnam to win a victory over the desires and the intentions of all the American people. This nation is mighty enough, its society is healthy enough, its people are strong enough, to pursue our goals in the rest of the world while still building a Great Society here at home."

I have, today, no new facts to give you on our economic situation -- no new programs or policies to announce. You are well acquainted with the issues -- and, I am sure, with the arguments. What I wish to do, simply, is to put the whole current discussion in proper perspective -- a perspective that I am firmly convinced is as often overlooked or ignored as it is profoundly required.

For one thing, let me make it absolutely clear that both the present scale of activities in Vietnam -- and the prospective scale insofar as those closest to it can foresee -- remain within our capacity to sustain without anything like the drastic measures required during the period of the Korean War.

What the situation does require is the exercise of calmness, moderation, and responsible restraint on the part of all of us, for it somewhat limits our margin for economic error, and narrows our tolerance for economic excess and irresponsibility. But it does not require drastic taxation, direct price and wage controls, and all the disturbing paraphernalia of conversion to war that marked World War II and the Korean War.

Nothing is better calculated to destroy the calmness, moderation and restraint necessary to crest our current problems without retreat or dislocation than to confuse the situation today with that which faced us during these two previous experiences. Having served as Administrator of the National Production Authority and the Defense Production Administration and as Director of the Office of Defense Mobilization during the height of the Korean mobilization period, the sharp contrast between that situation and the one today is particularly striking to me. Let me make that contrast clear.

During the Korean War this nation carried out an intensive defense mobilization program for two purposes -- to wage the conflict in Korea and at the same time reset, restore and build up a military and industrial mobilization base, substantially dismantled after World War II, adequate to meet any escalation of the Korean War into a world conflict on the scale of World War II.

Since the Korean War three administrations, under Presidents Eisenhower, Kennedy and Johnson, have maintained with great care and expense a highly modernized, up-to-date force in being designed to deal from a state of intensified preparedness with any situation which might develop.

I invite your attention and that of every American to the recent press statement of Defense Secretary Robert McNamara, in which he outlined the situation in terms of military and logistical dispositions.

I will limit my comments to some interpretation of this situation in economic terms.

In the regular administrative budget our defense expenditures rose drastically from $13.0 billion in fiscal 1950 to $50.4 billion in fiscal 1953, or an increase of 287 percent. From fiscal 1965 through fiscal 1967, however -- the period during which all of the $10½ billion increase in special Vietnam expenditures is scheduled to occur -- our defense expenditures in the administrative budget will have risen from $50.2 billion in 1965 to $60.5 billion in 1967, or an increase of only 21 percent.

The figures for the total Federal budget tell exactly the same story. From fiscal 1950 to fiscal 1953, total expenditures in the administrative budget soared from $39.5 billion to $74.1 billion, a rise of 87 percent. Total expenditures in the current period -- the fiscal 1965- 67 period -- will grow by only 17 percent, from $96.5 billion to $112.9 billion.

Let us look at this disparity of increases in volume in terms of its toll on our national output.

Defense expenditures in the Korean War rose from 4.9 percent of our national output in fiscal 1950 -- at the beginning of the Korean War -- to a peak of 14 percent of our output in fiscal 1953, or nearly three-fold over three years. From fiscal 1965 through fiscal 1967 our defense expenditures are scheduled to rise hardly at all as a percentage of our national output, going from 7.7 percent to just over 8 percent.

Equally revealing is the fact that, despite the scheduled rise of $10½ billion in special Vietnam expenditures in the fiscal year 1967 over the level contemplated in fiscal 1965, our defense expenditures in any one of these three years are lower in relation to our economic output than in any one of the preceding five years from 1960 through 1964.

Or, if one wishes to look at the total Federal budget in these terms, it rose during the Korean War from 15 percent of our output to 20.7 percent. Yet in the three fiscal years 1965-1967 our total Federal budget, as a percentage of our output, will show only a negligible rise from a relatively low 14.9 percent to just over 15 percent.

I am sure that against this statistical background this audience, astute as it is with figures, perfectly understands my point, which is simply this: our level of military preparedness at the beginning of the intensified Vietnam conflict, and our ability to bear the burden of required military expenditures, are vastly greater than they were at the time of the Korean conflict.

In his recent review of the military and supply deployment in Southeast Asia, Secretary McNamara made this striking statement:

> "The Southeast Asia effort is unique in our military history. Never before has this nation or any other nation been able to deploy so large a force within so short a period of time, some 10,000 miles from our shores, without calling for reserves, without extending active duty tours, and without invoking the kinds of strict economic controls normally associated with military emergencies."

There are many reasons for this, but one fundamental reason is simply that we are far better able today than we were in the Korean period to handle without excessive strain or dislocation the economic and military burdens of a conflict abroad such as the one in which we are now engaged. The $10.5 billion of additional expenditures for the Vietnam War scheduled for fiscal 1967 is less than 1½ percent of the $722 billion gross national product originally projected for calendar 1966, and now viewed by most as a slightly conservative figure.

Unquestionably, we must guard with unrelenting vigilance against the danger of inflation in an economy closer to full employment and full utilization of productive capacity than at any time in many years. Since last fall I have been regularly calling attention to this factor and the upward drift in the wholesale price index for the first time in seven years -- mainly in the farm product and processed food categories, which account for approximately two-thirds of the rise in that index from January of 1965 to January of this year. As I have said repeatedly on many occasions since last fall the situation also requires all of us -- government, business, labor and the individual citizen -- to accept our responsibilities, exercise due restraint, and exemplify the moderation expected of a great and confident people.

The Congress is completing action this week on the President's tax proposals, which are designed to raise additional revenues in the sum of approximately $6 billion during the remainder of this fiscal year 1966 and fiscal year 1967.

By adding these revenues to those which arise naturally as fiscal dividends from the application of existing tax rates to a burgeoning economy, we expect the fiscal 1967 budget to pass or approach balance, whether measured by the administrative budget, the cash budget, or the income and production account budget -- providing, of course, that the totals reflected in the President's budget are not substantially increased as the Congress works its will through the appropriation process.

The economic impact of this bill will begin to be felt almost immediately after the President signs it and will build throughout the year -- withdrawing from private purchasing power a total of $2.7 billion during calendar 1966.

All of us will be watching with interest as these new tax measures join together with the other forces that tend to moderate the growth of the private sector of the economy -- forces such as the Federal Reserve action a few months ago and the increase in Social Security and Medicare taxes at an annual rate of $6 billion which began to take effect last January.

As of now the Administration, whether practicing new economics or old, is shifting from a policy of steady stimulus to demand to a policy of moderate restraint to counter the cyclical consequences of the Vietnam situation, coming as it has at a time when our economy is scaling new peaks of achievement in moving toward our national economic goals.

But in shifting our policy, the Administration is very mindful of the continuing task of preserving and promoting continuous long-term growth,pursuing competitive efficiency, and dealing with our balance of payments -- both now and in the period that will surely come after Vietnam has been settled.

The announcement last week that unemployment had dwindled to less than four percent (3.7 percent) in February -- the lowest point in more than 12 years -- should not be greeted with jitters. That is not the reaction of a great nation as long as the unemployment rate was still seven percent for Negroes and 10.9 percent for teenagers and three million would-be workers were still wanting jobs. The lessening unemployment should be welcomed in full and confident recognition of the progress we can continue to make as we not only sustain, but intensify what is already the greatest public manpower training and retraining effort in our history in partnership with the heightened programs of manpower training that have long played a large role in private industrial effort. We expect our labor force to expand by 1.6 million workers this year. This expansion, and the need for continued improvement in our national ability to deal with problems of structural unemployment, constitute a pressing challenge to job creation in the private sector.

Likewise, the realization that the large amounts of idle and obsolete productive capacity which characterized the American scene too much in the last decade have been whittled away by increasing demand and investment should not be a cause for gloom. Coming on stream in 1966 are vast quantities of new industrial capacity reflecting the most modern and up-to-date technology. These are the fruits of investment made in recent years, and the fact that this type of activity promises to continue in 1966 should not be viewed entirely with alarm.

We do not want to put the brakes on unnecessarily or too fast. We want to watch and weigh all developments carefully -- those that point up, and those that point to a levelling, and those that point down. We are watching carefully what happens to the President's budget in the appropriation process. It could move the budget from the posture of approximate balance to either a meaningful deficit or surplus. We are watching carefully events in Vietnam so as to determine whether or not the measures currently contemplated in the 1967 budget will be adequate to meet the situation as it develops. As the President said only last week he will not hesitate "to act quickly in the field of taxation if such action appears necessary."

While we in Treasury have been continuing our contingency planning in that field in which we are at all times regularly engaged, I welcome the announcement over the weekend that a Subcommittee of the Joint Economic Committee of the Congress, chaired by Congresswoman Martha W. Griffiths of Detroit, will open hearings this Wednesday to consider -- and I quote -- "the need for and design of temporary tax changes which could be enacted promptly in response to a recognized need for stimulating or restraining the economy." In appearing before the Joint Economic Committee on February 3, I had suggested that the House Ways and Means Committee or the Joint Economic Committee study and recommend the type of tax increases most suitable should inflationary pressures require additional fiscal action.

In the meantime, we must all understand that whether or not such action will be required will -- in large measure -- depend on how all of us, in government and in the private economy, exercise our clear responsibilities for restraint and moderation. As I have tried to demonstrate, these responsibilities -- while they take on new urgency in the context of our buoyant economy and of the struggle in Vietnam -- are not something newly invented to make business leaders unhappy or labor leaders irate or the lives of all of us more difficult. These responsibilities, on the contrary, are but the inevitable and natural consequence of the responsibility that we as a nation -- that every single one of us as Americans -- must bear for Free World leadership.

For the Federal government these responsibilities require the kind of firm and effective restraint so fully displayed in the budgets President Johnson has presented. For you in the private sector these responsibilities above all require -- as a matter of plain national need -- that you continue to follow the path of restraint so clearly mapped out in the wage-price guideposts of the President's Council of Economic Advisers.

I want to avail myself of the pleasure and privilege of paying tribute to the distinguished chairman of this meeting -- Mr. William J. Quinn -- and to the members of this audience for a very special contribution that they are making to a sound and strong America -- a contribution of particular interest to the Treasury Department.

I speak of your efforts on behalf of United States Savings Bonds -- efforts that I know will surpass even your remarkable past successes in the forthcoming campaign which Mr. Quinn has outlined so eloquently and cogently.

I speak of the leadership so brilliantly displayed by such men as Mr. Quinn, Mr. Patrick H. Hoy, the State Chairman of your Savings Bonds program; Mr. Crowdus Baker and Mr. James Griffin of Sears Roebuck, who have served on the National Payroll Savings Committee as co-chairmen for retail merchandising; Mr. John deButts of Illinois Bell Telephone, former chairman for telecommunications; Mr. E. S. Marsh, president of the Atchison, Topeka and Santa Fe Railway and former chairman for railroads. I speak of the kind of executive leadership exemplified by each of you here today -- the kind of leadership so essential to the success of the Payroll Savings drive throughout industry in the Chicago area and throughout the nation.

As Mr. Quinn has explained, the goal of the nationwide Committee is to spearhead the enrollment of at least 1,200,000 new Payroll Savers during 1966, the 25th or Silver Anniversary year of the Savings Bonds program.

I need not tell you how important it is to reach -- even exceed -- that goal. For every dollar that goes into United States savings bonds does double duty in the fight against inflation -- for it not only diminishes the private spending stream but strengthens our ability to finance our national debt in a noninflationary manner. At the same time, the savings bonds program -- and the payroll savings plan in particular -- help all who participate to enhance their own personal financial well-being and establish the sound financial habit of systematic savings.

The Savings Bonds program is one way -- and an important way -- in which you, and all Americans, can demonstrate that in deed as in ideal, in performance as in promise, we are a nation of greatness -- a nation willing and worthy to bear the responsibilities for leadership in an interdependent world.

oOo

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 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 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 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 March 24, 1966, in cash or other immediately available fu or in a like face amount of Treasury bills maturing March 24, 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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 16, 1966
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
(XX)

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 (XX), or thereabouts, for cash and in exchange for Treasury bills maturing March 24, 1966 (XX), in the amount of $ 2,208,747,000 (XX), as follows:

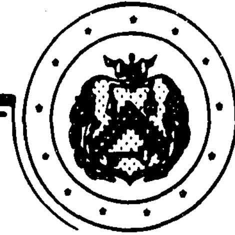
91 (XX) -day bills (to maturity date) to be issued March 24, 1966 (XX), in the amount of $ 1,300,000,000 (XX), or thereabouts, representing an additional amount of bills dated December 23, 1965 (XX), and to mature June 23, 1966 (XX), originally issued in the amount of $ 1,003,298,000 (XXX), the additional and original bills to be freely interchangeable.

182 (XXX) -day bills, for $ 1,000,000,000 (XXX), or thereabouts, to be dated March 24, 1966 (XXX), and to mature September 22, 1966 (XXX).

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Monday, March 21, 1966 (XXX). 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.

March 16, 1966

FOR IMMEDIATE RELEASE

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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 March 24, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 24, 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 fr any Federal Reserve Bank or Branch.

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The Under Secretary said:

"I am honored to have the privilege of going to Venezuela to sign with that growing country the first ~~exchange~~ ~~stabilization agreement~~ between the United States and a South American country.

"I am very pleased that a distinguished congressional delegation has agreed to accompany me, to emphasize ~~their~~ national interest in this event.

"We are looking forward to seeing at first hand, while we are in Venezuela the evidences of Venezuela's social and economic progress, accomplishments that place

Venezuela wittnesses to the signing included Minister of Finance Dr. Morales Crespo and members of the Board of Directors of the Central Bank of Venezuela.

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~~DRAFT~~ D/R   March 17, 1966

For Immediate Release
~~Thursday, March 17, 1966~~

UNDER SECRETARY BARR LEAVES FOR CARACAS TO SIGN AN EXCHANGE STABILIZATION AGREEMENT

The Under Secretary of the Treasury, Joseph W. Barr, left today for Caracas to sign with Venezuela the first exchange stabilization agreement between the United States and a South American country.

The Agreement, expected to be signed tomorrow, will be in force for two years and will permit each side to draw up to $50 million of the other's currency in amounts and at times mutually agreeable.

Under Secretary Barr was accompanied by ~~Senator~~ Montoya of New Mexico, Representative Talcott of California and Representative White of Idaho as Congressional Advisers.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 17, 1966

FOR IMMEDIATE RELEASE

UNDER SECRETARY BARR LEAVES FOR CARACAS TO SIGN
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Under Secretary Barr was accompanied by Senator Joseph M. Montoya, Democrat of New Mexico, Representative Burt L. Talcott, Republican of California and Representative Compton I. White, Democrat of Idaho, as Congressional Advisers.

The Under Secretary said:

"I am honored to have the privilege of going to Venezuela to sign with that growing country the first currency "swap" arrangement between the United States and a South American country.

"I am very pleased that a distinguished congressional delagation has agreed to accompany me, to emphasize the national scope of our interest in this event.

"We are looking forward to seeing at first hand, while we are in Venezuela the evidences of Venezuela's social and economic progress, accomplishments that place Venezuela in the forefront of countries carrying out the Alliance for Progress."

Venezuela witnesses to the signing included Minister of Finance Dr. Morales Crespo and members of the Board of Directors of the Central Bank of Venezuela.

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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.

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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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 (x10x) or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 31, 1966 (x11x), in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31, 1966 (x12x). 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

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TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 17, 1966

XXXXXXXXXX(1)XXXXXXXXXXXXX.

TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $1,000,000,000 (2), or thereabouts, of 365 (3) -day Treasury bills, for cash and in exchange for Treasury bills maturing March 31, 1966 x(4)x, in the amount of $3,200,714,000 x(5)x, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated March 31, 1966 (6), and will mature March 31, 1967 (7), when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Standard time, Thursday, March 24, 1966 (8). Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that these bills will run for 365 (9)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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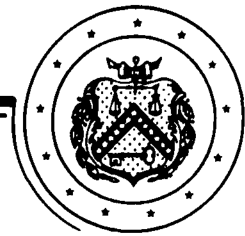
TREASURY DEPARTMENT



WASHINGTON, D.C.
March 17, 1966

FOR IMMEDIATE RELEASE

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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 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

FOR RELEASE P. M. NEWSPAPERS
FRIDAY, MARCH 18, 1966

REMARKS BY THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF TREASURY
AT THE PRESENTATION CEREMONIES OF THE
SAM RAYBURN GOLD MEDAL
THE SAM RAYBURN LIBRARY, BONHAM, TEXAS
2:00 P. M., MARCH 18, 1966

THE GOOD OF MAN MUST BE THE END RESULT OF THE SCIENCE OF POLITICS

Each time I return to the Southwest where I was born and where I lived the first 20 years of my life, I feel a deep surge of pride. Here is the Pioneer tradition -- the tradition of accomplishment by hard work and perseverance. My grandfather, John Milton Stewart, was the Chief Machinist at the S. L. Irvin Company at nearby Honey Grove, Texas. He was also a railroad man, farmer and businessman, possessing the versatility necessary to the taming of the prairie wilderness when the Cheyenne Territory was opened in Southwestern Oklahoma in 1893.

This is also ancient land. Here the roots of our history run broad and deep. Here the cultures of many people met -- Indian, Spanish, Mexican, and American. One complemented the other. Each contributed to the cultural heritage of the past which we presently enjoy.

The man we honor here today was both a product of this rich, diversified culture and a contributor to it. Conscious of the land's history, understanding of its people, Sam Rayburn reflected in his long life of political purpose and purposeful action their aspirations and their dreams. The land and its people are both richer for his having lived.

The strength and dignity of any monument, whether it is a library fashioned of wood or a statue carved from stone, is derived not from the wood or marble of which it is built, but from the man in whose name it was erected. The strength of Mr. Rayburn was as the strength of the land which he loved. His dignity was the dignity of the people whom he served for over half a century. Both the Sam Rayburn library and the principles of the man which give it strength and dignity are now a meaningful portion of the cultural legacy future generations will share.

The gold medal presented here today honors Mr. Rayburn as an outstanding representative of his people before the greatest political tribunal of our land. It is also a testament wrought in gold of his country's appreciation and indebtedness. In creating this symbol of unselfish service to the people he represented, the country he served, and

the democratic principles in which he believed, we follow a tradition as old as our government -- a tradition that recognizes a citizen's contribution to the preservation of those ideals and principles that are the cornerstones of our democratic institutions and which give substance and meaning to democracy itself.

Aristotle taught that "the good of man must be the end of the science of politics." It was this principle that guided Sam Rayburn throughout his illustrious life. He was eminently successful in bringing together diverse political elements in our complex political structure. Out of this political synthesis, this crystallization of intellectual ideas from all portions of our country, came laws that strengthened the fabric of our society and enriched the lives of our people. The laws that he helped fashion reflect his belief that the good of man must be the end result of political thought and action.

It is extremely important that we never lose sight of this principle when we formulate laws, enforce them, and interpret them within the framework of contemporary thought and belief. In every facet of our undertakings today, in our endeavor to create a great society at home and a good society

of nations throughout the world, we are consious of this principle -- that the good of man must be the end result of political thought and action. It guides our course of action in Vietnam where we seek to restore peace and order in a troubled land so that free people may choose a government and a way of life of their own free choice. It guides our course of action here at home in our efforts to rebuild and dignify our cities, preserve our country's beauty and safeguard our natural resources, eliminate social ills that degrade and destroy fellow Americans, expand and improve our educational systems, and alleviate prejudice and bigotry so that all of us -- regardless of his race, religion, or color -- may live in harmony and work in unison with each other to achieve goals and dreams we share.

President Johnson, in his message to Congress on American cities, talked about answering an ancient dream:

> That dream is of ... a land ... of promise, of hope, where it could truly be said, to every man his chance, to every man, regardless of his birth, his shining golden opportunity, to every man the right to live and to work and to be himself and to become whatever thing his manhood

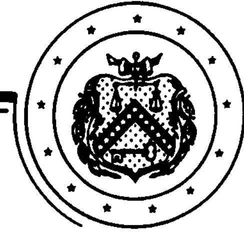
and his vision can combine to make him.

There are few Americans who have not shared this dream. It is a recurrent dream, because the moulding of a society where the good of man is the end result of political thought and action is a continuous process. It develops through succeeding generations, and each generation enriches or distorts this dream in proportion to its attitude and approach to solving the innumerable problems we face in our communities and our country. The complexity and enormity of the problems that surround us at home and abroad preclude to any of us the luxury of leisure or indifference in our search for solutions. It is a search in which all must participate, for all are effected.

Here in Bonham and as a Congressman and Speaker of the House of Representatives in our nation's capital, Sam Rayburn continually sought opinions of people in all walks of life to help guide his thought and direct his actions. For he realized that democracy to live and flourish must reflect and mirror the thoughts and aspirations of peoples of varied backgrounds, different nationalities, and diverse interests. He realized that to the extent political action reflects the best thought which can be brought to bear on any given problem, to that

extent do political laws enrich the lives of human beings and contribute to democracy's growing legacy. He was fortunate to see within his own lifetime the beneficial effects of numerous social and economic laws he helped formulate and bring to fruition -- laws that enriched the lives of all Americans and strengthened the democratic principles upon which our society rests. By his life and actions he contributed toward the fulfillment of the American dream and enriched our common heritage.

TREASURY DEPARTMENT



WASHINGTON, D.C.

ADVANCE FOR USE AT 3:30 PM EST
FRIDAY, MARCH 18, 1966

UNITED STATES AND VENEZUELA
SIGN $50 MILLION EXCHANGE AGREEMENT

The Under Secretary of the United States Treasury, Joseph W. Barr, and the President of the Central Bank of Venezuela, Alfredo Machado Gomez, signed a $50 million Exchange Agreement today, in Caracas.

The Agreement between the United States Treasury and the Venezuelan Central Bank will be in effect for two years.

It provides for reciprocal currency "swap" facilities under which:

-- The U. S. Treasury Exchange Stabilization Fund may purchase Venezuelan bolivares in exchange for dollars, and

-- The Venezuelan Central Bank may purchase United States dollars in exchange for bolivares,

-- Up to $50 million, at times and in amounts as may be mutually agreed.

The availability of these currencies to the two countries will increase the ability of their financial authorities to cooperate effectively in international economic affairs, and to promote stable and orderly conditions in exchange markets.

Senator Joseph M. Montoya, of New Mexico, Representative Burt L. Talcott, of California and Representative Compton I. White, of Idaho accompanied the United States delegation to Caracas as Congressional Advisers, and were present at the signing of the agreement in the new headquarters of the Venezuela Central Bank at Caracas.

Venezuelan witnesses to the signing included Minister of Finance Dr. Marales Crespo and members of the Board of Directors of the Central Bank of Venezuela.

F-411

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IMMEDIATE RELEASE

~~DRAFT PRESS RELEASE~~

United States and Republic of China to Discuss Income Tax Treaty

Representatives of the United States and of the Republic of China will meet shortly in Washington to discuss an income tax treaty between the two countries. The treaty will be designed to avoid double taxation and to encourage 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 United States is also proposing inclusion of an investment credit to promote U.S. direct investment in China.~~ In general, ~~the discussions~~ will be ~~based upon~~ ~~the income tax treaty~~ with Israel, the most recent treaty negotiated with a developing country.

Persons having an interest in a tax treaty with the Republic of China may wish to consult that treaty and those with Thailand and the Philippines, all three of which are now pending in the Senate, as well as 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~~ Individuals who wish to offer suggestions for consideration in connection with the proposed treaty are invited to send their views before April 1, 1966 to Assistant Secretary Surrey, Treasury Department, Washington, D. C. 20220.

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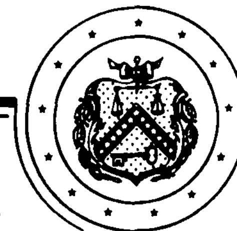
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 18, 1966

IMMEDIATE RELEASE

UNITED STATES AND REPUBLIC OF CHINA
TO DISCUSS INCOME TAX TREATY

Representatives of the United States and of the Republic of China will meet shortly in Washington to resume discussions previously held in Taipei on an income tax treaty between the two countries. The treaty would be designed to avoid double taxation and to encourage 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. In general, it is expected that the treaty will be along the lines of that concluded with Israel, the most recent treaty negotiated with a developing country.

Persons having an interest in a tax treaty with the Republic of China may wish to consult that treaty and those with Thailand and the Philippines, all three of which are now pending in the Senate, as well as 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.

Individuals who wish to offer suggestions for consideration in connection with the proposed treaty are invited to send their views before April 1, 1966 to Assistant Secretary Surrey, Treasury Department, Washington, D. C. 20220.

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F-412

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 ON CRIMINAL LAWS AND PROCEDURES
COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

ON S. 2187, S. 2188, S. 2190, S. 2191 AND S. 2578

TUESDAY, MARCH 22, 1966

Mr. Chairman:

I am here this morning to discuss the views of the Treasury Department on several bills which deal with various aspects of criminal enforcement and criminal procedures. I will deal with the bills individually.

S. 2187

This bill, if enacted, would outlaw membership in the Mafia and similar organizations. While many of the details of such criminal organizations are shrouded in secrecy, diligent investigation sometimes is able to penetrate this

secrecy and to produce evidence of association, participation in criminal designs, and some objective evidence of a furtherance of those designs by overt acts. Such organizations should receive the continuing intensive investigation of federal law enforcement officers.

This Department has a strong interest in measures which seem likely to provide useful weapons in its continuing efforts against organized crime. It is not clear to us, however, that S. 2187 would extend the reach of the system of statutes that is already available, or make accessible evidence which investigation cannot now provide. Where the evidence would support prosecution under the provisions of S. 2187, we think it likely that the prosecution could also resort to 18 U.S.C. § 371, punishing conspiracies to commit offenses against the United States, or 18 U.S.C. § 1952, punishing a variety of uses of interstate and foreign commerce facilities in furtherance of criminal activity. These provisions, when coupled with the provisions of 18 U.S.C. §§ 2 and 3, defining parties to criminal offenses, would probably cover the same evidentiary ground that would be encompassed by S. 2187.

S. 2188

This bill would supplement the protection against intimidation afforded witnesses under 18 U.S.C. § 1503, by making it a crime to endeavor to obstruct, delay or prevent the communication of information relating to a violation of any federal law to a criminal investigator. Section 1503 has been interpreted to apply only where there is a proceeding pending before a court. The proposed section would apply where no formal proceeding is pending, although it also could be applied with respect to such proceedings. The Treasury Department sees important advantages in punishing the interference with communication of information to investigators, without regard to the pendency of a formal court proceeding. The cases are many in which potential witnesses against major criminal subjects have disappeared, died or changed their story during an investigation. We support the enactment of S. 2188.

Organized crime cases present special risks of intimidation before the matter becomes one of judicial cognizance. Organized crime figures commonly employ subterfuge and secrecy. The development of cases against them often involves

a protracted investigation before sufficient information is gathered to commence a prosecution. The risk that potential witnesses will be identified and silenced during such extended investigations is substantially greater than in the typical brief police investigation.

Two technical matters in S. 2188 deserve mention. First, it appears that the proposed new section should be numbered § 1510, placing it at the end of the chapter dealing with obstruction of justice. Second, because potential witnesses may in some cases be dealing directly with federal prosecutors, it would appear wise to include prosecuting attorneys for the United States within the group to which communication of information is protected. This could be accomplished by adding, after the words "criminal investigator," wherever they appear in subsection (a) of the proposed new section, "or prosecuting attorney," and by adding to subsection (b) a definition of the term prosecuting attorney which would include United States Attorneys, Assistant United States Attorneys, Special Assistant United States Attorneys, and other appropriate Department of Justice attorneys assigned prosecuting duties. The precise language of this definition

should reflect the views of the Department of Justice.

S. 2190

S. 2190 would add new categories of criminal offenses under Title 18 of the United States Code as to which immunity from prosecution may be granted to those whose testimony is sought. The immunity procedure would apply in proceedings before a grand jury or court of the United States. Most of the offenses to which immunity provisions would be extended are within the investigative jurisdiction of the Department of Justice. As to those, we defer to the views of that Department concerning the advantages which would result from the immunity provisions.

This Department's Bureau of Narcotics has had experience with immunity grants under the provisions of 18 U.S.C. § 1406, which authorizes such grants in connection with certain narcotic and marihuana offenses. We have found that grants of immunity to carefully selected individuals can be an

extremely helpful tool in penetrating multi-party criminal transactions. Based on our experience, we believe that immunity provisions, subject in every case to procedures like those in S. 2190 as a safeguard against improper use, would be helpful to federal enforcement efforts, if immunity were available generally without narrow limitation to particular crimes. Any review of immunity provisions generally must, of course, come from the Department of Justice and we would defer to that Department's views on the broad question. Pending any such general review, we see no objection, and some advantages, to attaching immunity provisions to additional criminal statutes where they can be effectively utilized.

Investigations of violations of § 1952 of Title 18 involving liquor and narcotics are under subsection (c) of that section, designated to be supervised by the Secretary of the Treasury. Our experience with that section supports the Justice Department's view that it is an effective tool in combatting organized crime operations. Considering the multi-party nature of most of the operations involving liquor and narcotics which would be punishable under section 1952, it might well be necessary to grant immunity to peripheral participants in order to develop certain cases against those

principally responsible for the enterprise. We therefore support the addition of immunity provisions to section 1952.

S. 2190 would also provide immunity procedure in prosecutions for the offenses set forth in Chapter 11 of Title 18, dealing with bribery, graft and corruption. We agree that immunity provisions would be helpful with respect to such offenses. There is some common ground between that chapter and the offenses set forth in 26 U.S.C. § 7214, which punishes certain similar acts committed by officers and employees of the United States acting in connection with the revenue laws. For the reasons applicable to Title 18 offenses, we believe that immunity provisions should be added to § 7214.

S. 2191

This bill would provide procedures for civil commitment of certain classes of drug addicts who either voluntarily seek such commitment, or who have been convicted of a federal penal law relating to narcotics. In addition, provision is made for post-hospitalization care programs and appropriations are authorized for certain grant programs in the field of treatment of narcotics addiction.

We view the provisions of S. 2191 in the context of the Administration's support for programs of treatment for

narcotics addiction, a position recently expressed in the proposal and support by the Treasury and Justice Departments of S. 2152. Both S. 2152 and S. 2191 are expressions of concern over the social problem posed by victims of narcotic addiction. A comparison of the two bills reveals several differences in approach to this difficult problem. We believe that there are certain advantages in S. 2152, which are detailed below.

S. 2152 is limited in application to those addicted to narcotic drugs, while S. 2191 extends, in addition, to users of marihuana and peyote. There is a substantial difference in the addictive characteristics of narcotics, compared to marihuana and peyote. There is little evidence that the anti-social behavior of marihuana and peyote users stems from a compulsion to obtain drugs comparable to that which governs the lives of narcotics addicts, especially those addicted to heroin. Peyote and marihuana users are presently eligible for treatment at the federal treatment centers at Lexington and Fort Worth. In the present state of medical knowledge, we do not believe that the extended programs of treatment that are appropriate for narcotic addicts would achieve much for marihuana and peyote users.

S. 2191 provides a separate procedure for persons who voluntarily petition a District Court for civil commitment for narcotics addiction, while S. 2152 limits the commitment procedures to persons charged with or convicted of certain federal crimes. This voluntary commitment procedure affords the petitioner the right to counsel, including the assignment of counsel for indigent petitioners; provides for medical examination and report by two doctors, including one psychiatrist; affords a right to trial by jury of issues relating to addiction; provides for a full adversary hearing; and permits final orders of commitment to be reviewed by a Court of Appeals and the Supreme Court.

We doubt that this complex procedure is either necessary or desirable. We see a waste of the time of court and counsel in pushing through a litigation in order to sustain a result that both parties want. Moreover, we think great care ought to be taken not to establish federal programs of treatment which would either duplicate or be inconsistent with state programs. One way to avoid this is to limit federal commitment procedures to those who are in federal custody or are otherwise a primarily federal responsibility.

S. 2191 also provides for commitment for treatment, following conviction for federal narcotics offenses, in lieu of imposition of

imprisonment or other penalty. S. 2152, on the other hand, provides for both pre-conviction and post-conviction commitment. In addition, S. 2152 permits the procedure to be invoked with respect to those charged with or convicted of non-narcotics offenses, subject to certain limitations concerning more serious crimes and persons showing recidivistic tendencies.

The pre-conviction procedure of S. 2152 has several advantages. First of all, it provides a means for choosing between conviction and treatment <u>early</u> in the proceedings. If commitment for treatment is elected, the addict is not free on bond during the pendency of the proceedings, but is confined for examination. In view of the substantial evidence that addicts are frequently engaged in the daily commission of crimes to finance their habit, there is a definite value in removing them from circulation as early as possible.

Second, this procedure may result in avoiding the necessity of a criminal trial. The commitment procedure, unencumbered by the need for jury determination of issues, would take off of the court the burden of a criminal trial in a case which was appropriate for civil commitment.

Finally, the procedure of S. 2152 offers substantial incentive for successful treatment to the addict by enabling him to avoid a criminal conviction if he satisfactorily completes the prescribed course of treatment and follow-up care.

Similarly, providing for commitment in lieu of prosecution for non-narcotic offenses has substantial merit. Many narcotic offenders become involved in other crimes--the theft and forgery of government checks is one common form--for the specific purpose of funding their addiction. Whether the addict comes before the court charged with a narcotic offense or another offense may be purely fortuitous, and should not affect the availability of civil commitment proceedings, so long as the individual is not a dangerous criminal or a clearly inappropriate case for treatment.

S. 2578

This bill would modify much of the current federal court interpretation of the "McNabb-Mallory Rule,"* by providing that confessions made by persons under arrest or detention by law enforcement authorities would not be rendered inadmissible

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* McNabb v. United States, 318 U.S. 332 (1943)
Mallory v. United States, 354 U.S. 449 (1957)

solely because of delay in bringing such persons before a committing authority. In addition, the bill would require, as a prerequisite to the admissibility of such confessions, that the person making the confession be (1) advised of the nature of the offense believed to have been committed by him, (2) advised of his right to remain silent and of the possibility that any statement might be used against him, and (3) accorded reasonable opportunity to retain and consult with counsel.

Legal problems arising during the interval between arrest and subsequent arraignment of an accused are among the most difficult which today affect law enforcement work. There is a compelling need for clear and workable standards which will permit enforcement officers to ask questions of persons under arrest while fully complying with the law and heeding considerations of basic fairness. No such standards are now available and the general requirements of the McNabb-Mallory rule have widely disparate and unpredictable application in the federal court system.

The McNabb-Mallory rule is derived from Rule 5 of the Federal Rules of Criminal Procedure, rather than from a constitutional provision. There are, however, several constitutional provisions which must be accommodated--the right-to-

counsel provisions of the Sixth Amendment and the self-incrimination and due-process provisions of the Fifth Amendment.

At the present time the Supreme Court has before it for review four cases* the decisions in which may clarify the effect of those constitutional guarantees upon questioning procedures after arrest. Questioning procedures and standards are also being considered by the Pre-Arraignment Procedure Advisory Committee of the American Law Institute, by the American Bar Association's Special Committee on Minimum Standards for Criminal Justice, and by the Office of Criminal Justice in the Department of Justice. The Supreme Court's action in the pending cases and the conclusions of the groups just mentioned will surely affect the course of executive policy governing pre-arraignment practices and the nature of the legislative remedies that the government should seek.

We do believe that some post-arrest questioning is essential to determine whether to invoke subsequent steps in

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* Morando v. Arizona, #759; Vignera v. New York, #760; Westover v. United States, #761; and Johnson v. New Jersey, #762. Certiorari in each case was granted on November 22, 1965.

the criminal process, and, if so, what precise offenses and degrees of offenses should be charged. Such questioning is, we believe, consistent with a proper concern for the rights of those in custody, with fundamental fairness, and with the public interest in the solution of criminal cases. We think that we would be wise to await court disposition of presently pending cases, and a sense of the direction of the studies mentioned above, before making a specific legislative proposal.

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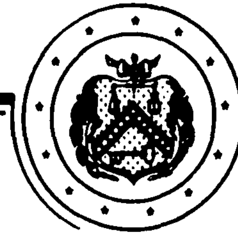
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.
ay, March 21, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, series to be an additional issue of the bills dated December 23, 1965, and the other es to be dated March 24, 1966, which were offered on March 16, 1966, were opened at Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, 1-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of two series are as follows:

E OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing June 23, 1966		:	182-day Treasury bills maturing September 22, 1966	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.848	4.557%	:	97.592	4.763%
Low	98.839	4.593%	:	97.582	4.783%
Average	98.843	4.576% 1/	:	97.585	4.776% 1/

0 % of the amount of 91-day bills bid for at the low price was accepted
4 % 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	$ 34,290,000	$ 24,140,000	:	$ 7,167,000	$ 7,167,000
York	1,486,674,000	758,574,000	:	1,255,258,000	575,338,000
ladelphia	32,685,000	15,420,000	:	20,603,000	6,953,000
veland	33,934,000	33,584,000	:	50,905,000	45,887,000
mond	14,330,000	14,330,000	:	10,299,000	10,299,000
nta	46,881,000	37,781,000	:	35,082,000	22,425,000
ago	337,384,000	218,245,000	:	329,941,000	160,130,000
Louis	51,973,000	45,973,000	:	40,586,000	37,584,000
eapolis	22,532,000	19,732,000	:	12,137,000	9,637,000
as City	31,481,000	31,461,000	:	13,487,000	13,457,000
as	29,065,000	24,265,000	:	14,145,000	11,085,000
Francisco	101,293,000	76,913,000	:	133,541,000	100,151,000
TOTALS	$2,222,522,000	$1,300,418,000 a/		$1,923,151,000	$1,000,113,000 b/

ludes $280,101,000 noncompetitive tenders accepted at the average price of 98.843
ludes $138,098,000 noncompetitive tenders accepted at the average price of 97.585
se rates are on a bank discount basis. The equivalent coupon issue yields are
% for the 91-day bills, and 4.96% for the 182-day bills.

3

In conclusion, economic conditions, national goals and international problems are never static -- nor can we stand still in the application of tax policy to improve these conditions, to help achieve these goals, or to solve these problems.

Tax policy contributed in a material way in closing the GNP gap in the first half of this decade and in helping to obtain our other objectives.

We will find it necessary to use tax policy in the second half of this decade to aid us in maintaining a continued balanced economic expansion with reasonable price stability. I am confident that this fiscal tool will continue to serve us in this period as well as it has in the past few years.

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In addition, there is a need for re-examination of the rules relating to private pension plans. The Report of a Cabinet Committee on corporate pension funds many months ago set certain goals for this re-examination: to broaden the coverage of such plans to include a wider range of employees, to provide greater assurance that the pension benefits will materialize and be paid; to make these plans as compatible as possible with a freely mobile labor force; and to eliminate special tax preferences associated with these plans which do not meet the test of efficiency and fairness.

The tax rules applicable to private pension plans were adopted almost a quarter-century ago -- in 1942 -- when pension plans were just beginning to flourish. The Treasury and other departments are hopeful that the re-examination of these rules currently under way through discussions with representatives of business, labor, and the actuarial profession will ensure that the rules and standards governing the qualification of these private pension plans are fully in keeping with current conditions and objectives.

priority of Federal tax liens in relation to the interests of other creditors. This technical and unspectacular legislation has great significance for insurance companies, banks, factors, sureties, and others in adapting the lien provisions to modern methods of financing and credit extension, and in solving the accumulated problems of many years in this area.

The Treasury recommendations for curbing abuses by tax-exempt private foundations are another part of the current tax scene. These recommendations deal with activities which have put private foundations under a cloud for many years, despite the fundamental and strong attachment Americans hold for private philanthrophy. President Johnson called for action this year on tax reforms to correct these abuses -- which involve such matters as "self-dealing" by foundations, unjustifiable delays in the distribution of benefits to charity, the involvement of foundations in business activities, the use of foundations by families to control corporate and other property, and other practices having no connection with philanthrophy.

The Ways and Means Committee, after detailed and painstaking consideration of the rules governing the tax treatment of foreign individuals and corporations investing in the United States, last week ordered reported the proposed Foreign Investors Tax Act. This measure is designed to modernize the technical rules in this area by eliminating provisions of present law having no tax policy justification, and which as a consequence can act as irritants tending to deter foreign investors from investing in the United States. This legislation also would eliminate provisions permitting unjustifiable preferences to such investors over our own citizens. As a consequence, the legislation covers a wide area of both income and estate taxation, and indeed is the first comprehensive review of this subject that has been undertaken.

Another measure is the proposed Federal Tax Lien Act of 1966, now also nearing the final stage of consideration in the House Ways and Means Committee. This Act would carry out the first comprehensive revision and modernization of the provisions of the Internal Revenue Code governing the

be reduced. Further, when tax reduction once again becomes feasible, particular attention must be given to relief of those at or near poverty levels of income."

The matter of equity in the distribution of the tax burden involves difficult problems and deep-seated feelings. Basic tax reforms are usually attended by lengthy Congressional consideration and public debate, all of which seems to me to be entirely appropriate.

What may evolve, therefore, is a dual system respecting tax legislation. In dealing with short-term temporary changes in tax levels to meet current economic conditions, we do not have time for exhaustive studies and lengthy debate. But in dealing with issues that go to the heart of the tax system -- the issues involving long-term and fundamental changes, including long-term reductions in tax rates -- we can proceed with greater deliberation.

So far I have discussed current tax policy in terms of the broader and more spectacular issues. But more is happening on the current tax scene. There are other pending matters -- undramatic but important -- which also merit attention.

whose economic effects should be immediate and predictable with reasonable accuracy, desirable for countercyclical purposes.

The Subcommittee will presumably also explore the question whether short-run changes should involve basic reforms of the tax structure where these reforms are controversial and their consideration likely to be time consuming. The structural changes legislated in the recent 1966 Act were basically non-controversial in character. Of course, the fact that consideration of controversial reforms may not be appropriate to temporary tax changes does not mean that we can not concern ourselves with the problem of equity in the distribution of the tax burden, for this lies at the heart of any tax system. Every tax bill cannot -- and should not -- be a measure to be enacted promptly to serve short-run economic objectives. President Johnson has made it clear that "more equitable distribution of the tax load" is one major goal of tax policy. He put it this way: "The great variation of tax liability among persons of equivalent income or wealth must

from a suspension of the credit removes a large area of current and future expenditure from the scope of the suspension and thereby reduces both its economic effect and revenue consequences. At the other end, the fact that the credit is earned when the equipment is installed -- and not when the equipment is ordered or when expenditures for it are made -- would leave the credit still applicable to orders entered during the suspension period for equipment whose lead time would place the installation after the suspension was over. This also reduces the scope of the suspension. Moreover, the equipment left to be affected by the suspension -- that both ordered and installed in the suspension period -- in large part would be the sort of machinery and equipment whose coming on stream would be helpful in meeting shortages.

These and other aspects were explored in the Senate debate and resulted in the Senate's refusal, by a wide margin of votes, to suspend this credit. The suspension of the credit thus did not appeal to the great majority of the Senate as the type of simple, noncontroversial measure,

modernization, is an assurance that we will have the powerful industrial structure necessary to provide the goods to meet our domestic needs, to fulfill our international obligations, and to maintain the strong competitive position required for our balance of payments goals. Questions as to the sustainability of that level of investment are really questions as to the [nature and] level of future [economic activity,] ~~demand~~, and do not in themselves ~~create~~ [tell us whether or not there is] a need to curtail investment per se. The high level of investment is but one part of the present scene and only a view of the total economic picture can tell us whether there is a need for further fiscal restraint. If there is such a need, the nature of that restraint and its impact on investment and consumption should be answered in terms of the capability for immediate impact on the economy of the various available tax changes, their distributional effects, and the varying extent to which current and future consumption ought to be affected.

Moreover, the Senate debate indicated there are many aspects, substantive and technical, that militate against the use of the investment credit for countercyclical purposes. The desire to protect existing commitments

for example, to the relative impacts on various classes of taxpayers and types of income, and on consumption and investment.

These points are all worth exploring, for a better understanding of the use of tax policy for short-range countercyclical purposes. We must not lose sight of the fact that an awareness of the technical factors and limitations inherent in most tax provisions is vital to an understanding of their suitability for such purposes. Nor should we forget that tax changes can be powerful tools, and therefore the consequences of change must be carefully explored and the possible responses fully analyzed. Here also unintended and unforeseen "short circuits" could work their troubles.

The recent Senate debate on the proposal to suspend the 7 percent investment tax credit is an illustration of the attention that must be given to these matters. That debate disclosed that an immediate leap from statistics showing a high level of business investment in plant and equipment to suspension of the credit overlooks many important considerations: For one, that business investment, through consequent increases in capacity and greater

for countercyclical use, as well as to broaden our understanding as to when and how such changes might be needed.

It is these questions that the Subcommittee now is considering. The Hearings are focusing on the contribution of rapid temporary tax changes to economic stabilization and the criteria for such tax changes. The Subcommittee also is asking what types of changes -- and in which taxes -- should make up the total tax action and whether suitable changes can be based on existing taxes or whether we need new taxes for this purpose.

The Subcommittee is exploring the principles that should govern the "technical design" of such tax action, including such questions as: Should the changes be "neutral" as among the different brackets of individual taxpayers and as between individuals and corporations? If so, how is this neutrality to be accomplished as a substantive matter? If the changes should not be neutral, then the Subcommittee is inquiring further as to what specific non-neutralities should be provided with respect,

executive-legislative relationship, will be able to use fiscal policy in an effective way both to help narrow gaps between actual and potential gross national product and to promote economic growth, which were major problems in the first half of this decade, and to keep total demand within the bounds of our productive capacity and thereby maintain essential price stability which has been a more recent concern of economic policy.

The Hearings of the Fiscal Policy Subcommittee, headed by Representative Martha Griffiths of Michigan, also indicate -- and I agree -- that there is little point in concentrating attention on seeking some sort of delegated tax-reducing or tax-increasing authority for the President to use, or automatic tax procedures for the Congress to follow, when the economy starts slowing down or threatens to overheat.

Rather, our thinking is better devoted to questions of substance -- developing the criteria, and thereby a consensus -- so necessary to successful action in the tax field -- on what sort of tax changes might be appropriate

flexibly at certain times is being illustrated now in another Congressional forum -- the hearings currently under way before the Fiscal Policy Subcommittee of the Joint Economic Committee.

These hearings, I feel, are responsive to the point emphasized by President Johnson in his recent Economic Report to Congress when he stated:

> "We must always be prepared to meet quickly any problems that arise in the path of continued, stable economic growth, whether the problems call for fiscal stimulus or fiscal restraint. Background tax studies by both the Congress and the Executive Branch should therefore be adequate to permit quick decisions and prompt action to accomodate short-run cyclical changes. If quick action is ever needed, we should not have to begin a long debate on what the changes in taxes should be."

These hearings -- plus what has gone on before -- indicate that we are seeking to evolve the appropriate methods by which our government, within its own form of

$2.7 billion out of the individual and corporate spending stream in calendar 1966.

Moreover, as a result of the multiplier process -- a reduction of spendible private funds stops the generation of the additional income that would have come with the spending of those funds -- the economic effect by the end of 1966 will be considerably greater than the $2.7 billion of cash payments.

For calendar 1967, the increase in cash payments to the Government will be about $5 billion.

With the Tax Adjustment Act of 1966, Congress has demonstrated that tax policy changes, when needed promptly, can be brought into play without protracted delays. This does not mean, of course, that there was not careful consideration of the revenue implications, the structural changes, or the economic impact of this legislation. All were examined closely by the tax-writing Committees of Congress, and changes made in the bill during the legislative journey.

The Congressional understanding that our government can and should be prepared to use tax policy quickly and

By getting our income tax structure on this current payments basis -- and achieving the changes in a period when economic conditions indicated the timeliness of the "doubling up" which the transition involves -- our tax system will be more sensitive than ever before to changes in tax policy. Future tax adjustments -- either up or down -- can be reflected immediately as a result of the structure of current payments that is now operative.

The changes in the 1966 Act start first with the higher manufacturers' excise tax on new automobiles on March 16. Next come the telephone excise tax adjustments on April 1, 1966, followed by the speed-up of corporate income tax payments on April 15, 1966 (for calendar year corporations having tax liabilities in excess of $100,000) and then on May 1, 1966, by the changeover to the graduated income tax withholding system. The economic impact of these changes is considerably greater than the fiscal year revenue figures would indicate -- $1 billion in fiscal 1966 and $4.9 billion in fiscal 1967. In terms of cash payments, we estimate that the changes in the new law will take about

the President's tax program, first outlined in mid-January, to be studied carefully and enacted into law. Moreover, all hands cooperated to meet the target date of March 15. This target was based on the lead time necessary to place in operation as soon as possible the various changes made by the legislation. The meeting of this target date reflected a general awareness that the change from budget stimulus to moderate fiscal restraint represented by the legislation was appropriate at this time.

Aside from the additional revenue the new law will generate, the 1966 Act achieves important structural changes. It will put larger corporations on a current payments basis for income taxes by 1967, rather than by 1970. It also introduces graduated withholding for individual income taxes, starting May 1, 1966, and a new technique that will be effective in 1967 for reduction of overwithholding of such taxes. It will put self-employed persons, who now pay their income taxes on a current basis, on a current payments basis for their social security taxes as well, starting next year.

TREASURY DEPARTMENT
WASHINGTON

FOR RELEASE A.M. NEWSPAPERS
THURSDAY, MARCH 24, 1966

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE TAX EXECUTIVES INSTITUTE
16TH ANNUAL MIDYEAR CONFERENCE
AT THE SHOREHAM HOTEL, WASHINGTON, D.C.
MARCH 23, 1966, 8 P.M., EST.

THE CURRENT TAX SCENE

A few days ago, President Johnson signed into law a tax measure -- the Tax Adjustment Act of 1966 -- which will generate approximately $6 billion in additional revenue in the remaining months of the current fiscal year and in the 1967 fiscal year.

While this is a significant amount of revenue at any time, the new tax law is significant for another reason as well.

The swift enactment of this legislation demonstrates clearly that the Congress not only can -- but will -- act both <u>responsively</u> and <u>responsibly</u> to provide the nation with the flexible fiscal policy that is particularly appropriate to this period.

The main features of the new tax law are well known to all of you here today. But I would like to call your attention to the fact that it took only about 60 days for

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be about $5 billion.

With the Tax Adjustment Act of 1966, Congress has demonstrated that
policy changes, when needed promptly, can be brought into play without
:racted delays. This does not mean, of course, that there was not
·ful consideration of the revenue implications, the structural changes,
he economic impact of this legislation. All were examined closely by
tax-writing Committees of Congress, and changes were made in the bill
ng the legislative journey.

The Congressional understanding that our government can and should
repared to use tax policy quickly and flexibly at certain times is

ing illustrated now in another Congressional forum -- the hearings rrently under way before the Fiscal Policy Subcommittee of the Joint onomic Committee.

These hearings, I feel, are responsive to the point emphasized by esident Johnson in his recent Economic Report to Congress when he ated:

> "We must always be prepared to meet quickly any problems that arise in the path of continued, stable economic growth, whether the problems call for fiscal stimulus or fiscal restraint. Background tax studies by both the Congress and the Executive Branch should therefore be adequate to permit quick decisions and prompt action to accomodate short-run cyclical changes. If quick action is ever needed, we should not have to begin a long debate on what the changes in taxes should be."

These hearings -- plus what has gone on before -- indicate that we seeking to evolve the appropriate methods by which our government, hin its own form of executive-legislative relationship, will be able use fiscal policy in an effective way both to help narrow gaps between ual and potential gross national product and to promote economic growth, ch were major problems in the first half of this decade, and to keep al demand within the bounds of our productive capacity and thereby ntain essential price stability which has been a more recent concern economic policy.

The Hearings of the Fiscal Policy Subcommittee, headed by resentative Martha Griffiths of Michigan, also indicate -- and I ee -- that there is little point in concentrating attention on seeking sort of delegated tax-reducing or tax-increasing authority for the sident to use, or automatic tax procedures for the Congress to follow, the economy starts slowing down or threatens to overheat.

Rather, our thinking is better devoted to questions of substance -- loping the criteria, and thereby a consensus -- so necessary to essful action in the tax field -- on what sort of tax changes might ppropriate for countercyclical use, as well as to broaden our rstanding as to when and how such changes might be needed.

It is these questions that the Subcommittee now is considering. Hearings are focusing on the contribution of rapid temporary tax

hanges to economic stabilization and the criteria for such tax changes. he Subcommittee also is asking what types of changes -- and in which axes -- should make up the total tax action and whether suitable changes an be based on existing taxes or whether we need new taxes for this urpose.

The Subcommittee is exploring the principles that should govern the technical design" of such tax action, including such questions as: hould the changes be "neutral" as among the different brackets of ndividual taxpayers and as between individuals and corporations? If o, how is this neutrality to be accomplished as a substantive matter? f the changes should not be neutral, then the Subcommittee is inquiring urther as to what specific non-neutralities should be provided with espect, for example, to the relative impacts on various classes of axpayers and types of income, and on consumption and investment.

These points are all worth exploring, for a better understanding of he use of tax policy for short-range countercyclical purposes. We must ot lose sight of the fact that an awareness of the technical factors and imitations inherent in most tax provisions is vital to an understanding f their suitability for such purposes. Nor should we forget that tax hanges can be powerful tools, and therefore the consequences of change ust be carefully explored and the possible responses fully analyzed. ere also unintended and unforeseen "short circuits" could work their roubles.

The recent Senate debate on the proposal to suspend the 7 percent vestment tax credit is an illustration of the attention that must be ven to these matters. That debate disclosed that an immediate leap om statistics showing a high level of business investment in plant and uipment to suspension of the credit overlooks many important considera-ns: For one, that business investment, through consequent increases capacity and greater modernization, is an assurance that we will have e powerful industrial structure necessary to provide the goods to meet r domestic needs, to fulfill our international obligations, and to intain the strong competitive position required for our balance of yments goals. Questions as to the sustainability of that level of vestment are really questions as to the nature and level of future onomic activity, and do not in themselves tell us whether or not there now a need to curtail investment _per se_. The high level of investment but one part of the present scene and only a view of the total economic ture can tell us whether there is a need for further fiscal restraint.

there is such a need, the nature of that restraint and its impact on
vestment and consumption should be answered in terms of the capability
: immediate impact on the economy of the various available tax changes,
eir distributional effects, and the varying extent to which current and
ture consumption ought to be affected.

Moreover, the Senate debate indicated there are many aspects,
ostantive and technical, that militate against the use of the investment
edit for countercyclical purposes. The desire to protect existing
mitments from a suspension of the credit removes a large area of
rent and future expenditures from the scope of the suspension and
reby reduces both its economic effect and revenue consequences. At
other end, the fact that the credit is earned when the equipment is
talled -- and not when the equipment is ordered or when expenditures
it are made -- would leave the credit still applicable to orders
ered during the suspension period for equipment whose lead time would
ce the installation after the suspension was over. This also reduces
scope of the suspension. Moreover, the equipment left to be affected
the suspension -- that both ordered and installed in the suspension
iod -- in large part would be the sort of machinery and equipment
se coming on stream would be helpful in meeting shortages.

These and other aspects were explored in the Senate debate and
ulted in the Senate's refusal, by a wide margin of votes, to suspend
s credit. The suspension of the credit thus did not appeal to the
at majority of the Senate as the type of simple, noncontroversial
sure, whose economic effects should be immediate and predictable with
sonable accuracy, desirable for countercyclical purposes.

The Subcommittee presumably will also explore the question whether
rt-run changes should involve basic reforms of the tax structure where
se reforms are controversial and their consideration likely to be time
suming. The structural changes legislated in the recent 1966 Act were
ically non-controversial in character. Of course, the fact that
sideration of controversial reforms may not be appropriate to temporary
changes does not mean that we can not concern ourselves with the
blem of equity in the distribution of the tax burden, for this lies
the heart of any tax system. Every tax bill cannot -- and should not
e a measure to be enacted promptly to serve short-run economic
ctives. President Johnson has made it clear that "more equitable
ribution of the tax load" is one major goal of tax policy. He put
his way: "The great variation of tax liability among persons of

ɿuivalent income or wealth must be reduced. Further, when tax reduction ıce again becomes feasible, particular attention must be given to relief : those at or near poverty levels of income."

The matter of equity in the distribution of the tax burden involves .fficult problems and deep-seated feelings. Basic tax reforms are usually tended by lengthy Congressional consideration and public debate, all of .ich seems to me to be entirely appropriate.

What may evolve, therefore, is a dual system respecting tax gislation. In dealing with short-term temporary changes in tax levels meet current economic conditions, we do not have time for exhaustive udies and lengthy debate. But in dealing with issues that go to the art of the tax system -- the issues involving long-term and fundamental anges, including long-term reductions in tax rates -- we can proceed th greater deliberation.

So far I have discussed current tax policy in terms of the broader d more spectacular issues. But more is happening on the current tax ene. There are other pending matters -- undramatic but important -- ich also merit attention.

The Ways and Means Committee, after detailed and painstaking ısideration of the rules governing the tax treatment of foreign ıividuals and corporations investing in the United States, last week ıered reported the proposed Foreign Investors Tax Act. This measure is ıigned to modernize the technical rules in this area by eliminating ›visions of present law having no tax policy justification, and which a consequence can act as irritants tending to deter foreign investors ›m investing in the United States. This legislation also would eliminate ›visions permitting unjustifiable preferences to such investors over our : citizens. As a consequence, the legislation covers a wide area of h income and estate taxation, and indeed is the first comprehensive 'iew of this subject that has been undertaken.

Another measure is the proposed Federal Tax Lien Act of 1966, now o nearing the final stage of consideration in the House Ways and Means mittee. This Act would carry out the first comprehensive revision and ernization of the provisions of the Internal Revenue Code governing priority of Federal tax liens in relation to the interests of other ıitors. This technical and unspectacular legislation has great ıificance for insurance companies, banks, factors, sureties, and others

adapting the lien provisions to modern methods of financing and
ədit extension, and in solving the accumulated problems of many years
this area.

The Treasury recommendations for curbing abuses by tax-exempt
.vate foundations are another part of the current tax scene. These
:ommendations deal with activities which have put private foundations
ler a cloud for many years, despite the fundamental and strong attachment
ricans hold for private philanthrophy. President Johnson called for
:ion this year on tax reforms to correct these abuses -- which involved
h matters as "self-dealing" by foundations, unjustifiable delays in
distribution of benefits to charity, the involvement of foundations
business activities, the use of foundations by families to control
porate and other property, and other practices having no connection
h philanthrophy.

In addition, there is a need for re-examination of the rules relating
private pension plans. The Report of a Cabinet Committee on corporate
sion funds many months ago set certain goals for this re-examination:
broaden the coverage of such plans to include a wider range of employees;
provide greater assurance that the pension benefits will materialize
be paid; to make these plans as compatible as possible with a freely
ile labor force; and to eliminate special tax preferences associated
:h these plans which do not meet the test of efficiency and fairness.

The tax rules applicable to private pension plans were adopted almost
uarter-century ago -- in 1942 -- when pension plans were just beginning
flourish. The Treasury and other departments are hopeful that the
əxamination of these rules currently under way through discussions with
:esentatives of business, labor, and the actuarial profession will
ıre that the rules and standards governing the qualification of these
'ate pension plans are fully in keeping with current conditions and
ctives.

In conclusion, economic conditions, national goals and international
lems are never static--nor can we stand still in the application of
policy to improve these conditions, to help achieve these goals, or
olve these problems.

Tax policy contributed in a material way in closing the GNP gap in
:irst half of this decade and in helping to obtain our other objectives.

We will find it necessary to use tax policy in the second half of .is decade to aid us in maintaining a continued balanced economic pansion with reasonable price stability. I am confident that this scal tool will continue to serve us in this period as well as it has the past few years.

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TREASURY DEPARTMENT
Washington

RELEASE P.M. NEWSPAPERS
WEDNESDAY, MARCH 23, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE A NATIONAL PRESS CLUB LUNCHEON
AT THE NATIONAL PRESS CLUB, WASHINGTON, D. C.
WEDNESDAY, MARCH 23, 1966, 12:30 P.M., EST

No doubt all here have read the morning news stories on the President's press conference yesterday in which he commented at length on taxes and the economic outlook. You are familiar with his summary of the pertinent economic factors and indicators and his statement that,"We don't want to act prematurely. We don't want to put on the brakes too fast, but it is something that requires study every day and we are doing that." In the light of this development you will understand my opening statement which is an exact quote from some remarks I made in Detroit last Monday a week as follows:

> "I have, today, no new facts to give you on our economic situation -- no new programs or policies to announce."

Indeed, I confess to misgivings about this appearance.

I remember what happened after the Detroit speech. My colleague, Gardner Ackley, who returned from Western Europe last Friday, brought me as a present two clippings -- one from a prominent London newspaper and the other from the overseas edition of The New York Times. The London dispatch from its Washington correspondent carried the headline "Fowler Opposes Tax Rise To Check U. S. Inflation" and stated "The clear intention of these remarks, indeed the whole tone of Mr. Fowler's speech, is to squash, a general expectation that the government will move in the near future to increase income and corporate taxes."

The New York Times headline, however, read: "Fowler Suggests Taxes May Rise" and the lead paragraph read: "The Nation is limited in its margin for economic error and

there may be a need for moderate tax increases Secretary of the Treasury Henry H. Fowler said today."

With this background of recent experience on varying interpretations, let me underscore the fact that any news story in my remarks today was covered last week and yesterday. To paraphrase the cautious author, any lack of identical resemblance to the attitudes voiced here today and yesterday in the White House across the street from my office is unintentional.

I confess I had another misgiving about coming here today. For while I am always delighted to meet with the distinguished members of the press -- who have done so much in recent years to raise the general level of understanding of complex economic and financial issues -- I was deeply disturbed by reports, from a fully reliable source, that the price of the special press club luncheon for affairs such as this, which has remained fixed at $2.60 since time out of mind, has now been raised to $3.00. This is a price increase of 15.4 percent -- or nearly five times the 3.2 percent limit laid out in the wage-price guideposts of the Council of Economic Advisers.

So I appear here today under protest -- and after reflecting that, after all, perhaps the rise in wholesale farm and food prices had something to do with the rise in your luncheon price -- as it has accounted for some two-thirds of the rise in the entire wholesale price index over the most recent twelve-month period, from February of 1965 through the February just past.

I know, of course, that any connection between my appearance here and your price hike is purely coincidental -- just as I have every confidence that a responsible organization like the National Press Club would not raise its prices except as a result of increased costs.

Indeed, the need for responsibility and restraint, for moderation and maturity, in all the public and private economic decisions that determine the course and condition of our economy are greater today than at any time in recent years.

This audience is thoroughly familiar with the terms of the current economic discussion -- with the issues, with the arguments, and with the developments. And I will not today conduct any long tour over terrain you know so well. Instead, I would like to assess as succinctly as I can the pressing problems and prospects before us in the national and international economic spheres -- and then try to answer any questions you may have.

The situation in our domestic economy, as you know, is this: the added demands of the Vietnam conflict in an economy closer to full employment and full utilization of productive capacity than at any time in recent years have increased the dangers of inflation and the need for responsible restraint on the part of all of us.

The Administration, as you also know, has shifted from a fiscal policy of steady stimulus to private economic demand to a policy of moderate restraint. We are striving for a fiscal 1967 budget that will show a surplus on a cash basis, and approach balance on the regular or administrative basis and on the income and product account basis -- provided, of course, that the totals reflected in the President's budget are not substantially increased as the Congress works its will through the appropriation process.

Last week, as you know, the President signed the Tax Adjustment Act of 1966 -- a measure that will raise some $6 billion in Federal revenues over the next 15 months, and withdraw a total of $2.7 billion from the private spending stream during calendar 1966. We expect this measure to serve as a growing force for economic restraint over the coming months -- together with other restraining influences already beginning to take hold, such as the Federal Reserve action a few months ago and the increase in Social Security and Medicare taxes of $6 billion at annual rates which began to take effect last January.

We are in the process of adding up receipts for the first of the two final installments of corporate tax payments for calendar 1965 -- and by the end of next month we should know how large our receipts are from individual payments for last year. When we have these figures, we will have a far clearer picture of what the revenue side of the budget -- as well as the net budgetary figure itself -- will

finally look like for fiscal 1966, as well as a better idea of the accuracy of our revenue forecasts for fiscal 1967.

Moreover, during the latter part of April we will have an accurate statistical contour of the important first quarter as well as the month of March, coming as it did after two months of mixed signals.

With this information and perhaps some better feel of the outcome of Congressional action on the non-Vietnam expenditures scheduled for fiscal 1967, we will have a firmer basis than we now have for deciding whether or not further fiscal action is required.

Over the longer run, of course, no one can predict whether we will need to schedule additional expenditures -- expenditures beyond those contemplated in the fiscal 1966 and 1967 budgets -- to meet our commitments in Vietnam. And Vietnam remains, therefore, an inevitable element of uncertainty in our budgetary as in our overall economic picture -- an element of which we must always remain fully aware.

At the same time, let me emphasize that our current estimates of Vietnam expenditures remain, in the view of those most qualified to judge, an accurate evaluation of our need so far as we can now foresee. And I would hope that, when the need for responsible restraint is so great, no one will base his economic decisions on the purely speculative assumption that our Vietnam needs will exceed current expectations.

In the private economy, also, the situation is, in my judgment, sufficiently uncertain to warrant -- indeed, require -- that we allow a clearer picture to emerge before making final decisions on the course of additional fiscal action. At the same time, the situation is disturbing enough to demand that we keep the closest watch upon economic developments and that we proceed to make ready the way for prompt and prudent action, if that should be required.

We in Treasury are continuing our contingency planning in the field of taxation -- not only in terms of possible tax increases to pay for additional public expenditures beyond those already planned or to forestall inflation, but in terms of possible tax reductions when and if a relaxation of hostilities in Vietnam will mean a diminishment in defense expenditures. And a Subcommittee of the Joint Economic Committee of the Congress is, as you know, currently holding hearings on -- and I quote -- "the need for and design of

temporary tax changes which could be enacted promptly in response to a recognized need for stimulating or restraining the economy."

At the same time, let me emphasize today -- as I did last week in Detroit -- that we ought to be a little less quick to regret that unemployment has fallen to 3.7 percent in February, when the unemployment rate was as high as 7 percent for Negroes and 10.9 percent for teenagers, and when three million would-be workers were still wanting jobs.

We ought to be a little less quick to take alarm at prospects for growing investment in industrial plant and equipment, when our labor force is going to grow by 1.6 million workers this year, and when consumer demand is going to grow, and when we are going to need greater output and greater capacity to meet the growing demand for jobs and for consumption. We ought also to remember that a good part of our growing capital investment -- particularly that part served by the 7 percent tax credit for new investment in machinery and equipment -- will go toward increasing the productivity of American business and thus enhancing its competitive ability in world markets. That ability is, as you know, essential to the continued strength of our international trade position -- upon which, in turn, we must continue to rely as the single greatest source of strength in our overall balance of payments.

We ought, in evaluating developments in the consumer and wholesale price indexes, to take all factors into account -- and understand, for example, that while recent price rises in both these indexes are unquestionably cause for concern, they are not yet intolerable. As I pointed out at the beginning, over the most recent twelve-month period about two-thirds of the rise in the wholesale index and about one-half of the rise in the consumer idex have occurred in the farm and food price category -- and we have reason to believe that in this category the worst will soon be over.

In short, in our zeal to avoid inflation and to maintain reasonable price stability we must not forget that full employment and economic growth are positive and essential national goals. Nor should we ever forget how, in 1957 and 1959, our last two expansions turned into recessions -- and interrupted our progress toward these goals -- as we tried to fight inflation by fiscal and monetary policies while inflation fed upon the failure of labor and management to exercise responsible restraint in determining wages and prices.

We recognize that both monetary and fiscal policy exercised by public authority have important roles to play in containing an excessively exuberant economy. But let no one who scoffs at the guideposts of the Council of Economic Advisers forget that in our free enterprise economy, which regards reasonably full employment and a profitable utilization of productive capacity as matters of equal priorty with reasonable price stability, the primary responsibility for avoiding inflationary wage and price rises rests squarely upon the shoulders of our businesses and our unions.

Recently I ran across this cogent call for responsibility in the private sector -- and I quote:

> "...business and labor leadership have the responsibility to reach agreements on wages and other labor benefits that are fair to the rest of the community as well as to those persons immediately involved. Negotiated wage increases and benefits should be consistent with productivity prospects and with the maintenance of a stable dollar. And businesses must recognize the broad public interest in the prices set on their products and services.
>
> "The full burden of avoiding price inflation, which is an ever present hazard in an expanding economy operating close to capacity, cannot be successfully carried by fiscal and monetary restraints alone. ....The successful extension of prosperity with price stability must be a cooperative effort in which the policies of individuals and economic groups and of all levels of Government are consistent with one another and mutually reinforcing."

One could hardly ask for a better summary of the current situation and the current need. Yet these are not the words of any exponent of the so-called "New Economics" -- they are not the words of any defender of the wage-price guidelines. They are not even words written in 1966. They are the words of the Economic Report President Eisenhower transmitted to the Congress in January of 1957.

President Eisenhower buttressed those words with this trenchant comment:

> "The events of the year showed, however, that when production and employment are high, wage and price increases in important industries can create upward pressures on costs and prices generally, and that the monetary and fiscal policies of Government must be supported by appropriate private policies to assure both a high level of economic activity and stable prices."

Today above all -- if we are not to repeat old mistakes -- leaders of management and labor can demonstrate their commitment to real and stable growth -- in whose fruits all can share -- by voluntary adherence to the wage-price guideposts which remain the most feasible and effective method, in our free market economy, of expressing the urgent interest of the public at large and the nation as a whole in economic decisions whose effect can be felt directly and indirectly throughout the entire economy.

In our domestic economy, therefore, there is still room for reasonable doubt as to whether additional restraints should be imposed by public action on private demand in our economy. But the time for decision is coming nearer -- and the period immediately ahead should tell the story.

The price stability that we require to maintain domestic economic balance is also, as you know, imperative if we are to reach our goal of equilibrium in our international balance of payments.

About a month ago, we announced the balance of payments results for the fourth quarter of 1965 and the entire year -- and assessed the prospects for reaching our goal of equilibrium by the end of this year.

Our assessment at that time remains, by and large, our assessment today. We said then, and say now, that the job ahead of us is a difficult one -- difficult both to quantify and to accomplish because of the uncertainties centering around Vietnam and the always unpredictable but vital trade balance, which in turn is related to economic developments here at home.

But equilibrium by the end of this year remains our goal -- and we mean to reach it. We will be watching developments in this sphere very carefully over the period ahead.

In the meantime, we are doing everything we can -- in the meetings now going on among the Deputies of the Group of Ten major industrial nations -- to secure a broad basis for agreement in ways to assure adequate world liquidity when the United States ceases to fill the world's financial reservoir with fresh supplies of dollars through its balance of payments deficits. The Deputies, as you know, are considering various proposals -- including our own -- for assuring adequate future world liquidity. We are very hopeful that the Deputies will reach a broad basis of agreement by the time they make their scheduled spring report to their respective financial Ministers on the progress of the current discussions.

The United States will continue to do all it can, while fully safeguarding those interests and principles it deems vital, to secure the needed measure of agreement so that negotiations can move into the second stage in which the interests of all the members of the International Monetary Fund will be represented in the shaping of any final agreement. The United States, as you are well aware, has insisted upon this second stage as a prelude to conclusive negotiations because of its conviction that all Free World countries have a significant and legitimate interest in any agreement that so deeply affects their destinies, and that the strengthening of the world monetary system to meet the needs of future years must include a further development of the International Monetary Fund -- which, more than any other institution, is responsible for the surpassing success of the monetary system that has served us so well for more than 20 years.

At the same time that we are seeking with other nations to strengthen the international financial resources so essential to the continued strength and stability of the Free World economy, we have joined with 31 other nations -- including 12 nations outside Asia -- in seeking to extend to the people of Asia the opportunity to share in the economic abundance and social progress that so many of us in the rest of the world take for granted. Last week, President Johnson signed a bill authorizing the United States to ratify the charter of the Asian Development Bank -- whose charter he termed "an economic Magna Carta for the diverse lands of Asia."

While sharing in the creation of this new and significant organization, we are continuing to explore, in company with 102 other nations in the World Bank and with 19 of our sister Latin American republics in the Inter-American Development Bank, the challenging and ever more vital future of these two established institutions.

These, then, are some of the prominent problems and prospects now before us both in the international economic sphere and in our domestic economy.

If you have any questions, I would be very happy to try to answer them.

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

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

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 March 31, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31, 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

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE, March 23, 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 March 31, 1966, in the amount of $3,200,714,000, as follows:

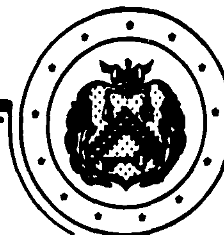
91-day bills (to maturity date) to be issued March 31, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated June 30, 1965, and to mature June 30, 1966, originally issued in the amount of $1,000,647,000 (an additional $1,001,132,000 was issued December 30, 1, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 31, 1966, and to mature September 29, 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, March 28, 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.

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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 mit 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 m others must be accompanied by payment of 2 percent of the face unt of Treasury bills applied for, unless the tenders are ompanied by an express guaranty of payment by an incorporated bank trust company.

F-416

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 March 31, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31,1966. 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 fr any Federal Reserve Bank or Branch.

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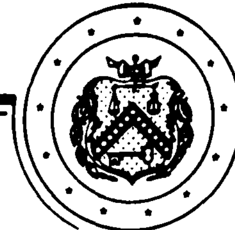
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
ursday, March 24, 1966.

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced that the tenders for $1,000,000,000, or thereouts, of 365-day Treasury bills to be dated March 31, 1966, and to mature March 31, 57, which were offered on March 17, were opened at the Federal Reserve Banks today.

The details of this issue are as follows:

Total applied for - $1,571,006,000
Total accepted - $1,000,016,000 (includes $43,357,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting three tenders totaling $5,540,000)

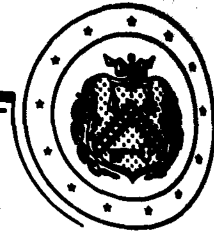
High	- 95.215	Equivalent rate of discount approx. 4.719% per annum	
Low	- 95.155	" " " " " 4.779% " "	
Average	- 95.195	" " " " " 4.739% " "	1/

(17% of the amount bid for at the low price was accepted)

Federal Reserve District		Total Applied for	Total Accepted
Boston		$ 10,484,000	$ 484,000
New York		1,058,286,000	665,286,000
Philadelphia		12,281,000	12,281,000
Cleveland		8,821,000	3,821,000
Richmond		1,531,000	1,531,000
Atlanta		22,144,000	13,154,000
Chicago		324,493,000	190,493,000
St. Louis		39,264,000	39,264,000
Minneapolis		7,230,000	7,230,000
Kansas City		3,292,000	3,292,000
Dallas		17,151,000	17,151,000
San Francisco		66,029,000	46,029,000
	TOTAL	$1,571,006,000	$1,000,016,000

This rate is on a bank discount basis. The equivalent coupon issue yield is 4.99%.

TREASURY DEPARTMENT



WASHINGTON, D.C.
March 25, 1966

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
WHOLE FROZEN EGGS

On March 11, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(a) of the Customs Regulations indicating a possibility that whole frozen eggs imported from the United Kingdom 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 developed within the Customs Service.

An "Antidumping Proceeding Notice" to this effect is being published in the Federal Register pursuant to section 14.6(d)(1)(i) of the Customs Regulations.

Imports of the involved merchandise received during the period February 1, 1966, through March 15, 1966, amounted to approximately $30,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 25, 1966

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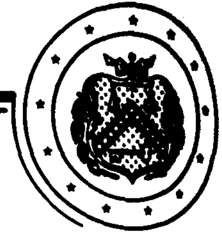
TREASURY DEPARTMENT



WASHINGTON, D.C.

Mar. 28, 1966

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
WHOLE FROZEN EGGS

The Treasury Department is instructing customs field officers to withhold appraisement of whole frozen eggs from the United Kingdom pending a determination as to whether this merchandise is being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice to this effect is being published in the Federal Register.

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

The information alleging that the merchandise under consideration was being sold at less than fair value within the meaning of the Antidumping Act was received in proper form on March 11, 1966. This information was the subject of an "Antidumping Proceeding Notice" which will be published pursuant to section 14.6(d), Customs Regulations, in the Federal Register of March 29, 1966.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 28, 1966

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
WHOLE FROZEN EGGS

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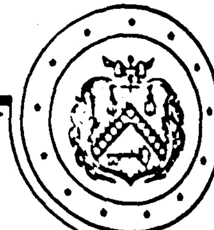
TREASURY DEPARTMENT



WASHINGTON. D.C.

FOR RELEASE 6:30 P.M.,
Monday, March 28, 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 June 30, 1965, and the other series to be dated March 31, 1966, which were offered on March 23, 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 June 30, 1966		182-day Treasury bills maturing September 29, 1966	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.852 a/	4.542%	97.600 b/	4.747%
Low	98.847	4.561%	97.591	4.765%
Average	98.849	4.555% 1/	97.596	4.755% 1/

a/Excepting 1 tender of $150,000; b/Excepting 2 tenders totaling $510,000
90% 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

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 32,737,000	$ 22,737,000	$ 14,970,000	$ 4,970,
New York	1,485,022,000	791,167,000	1,300,761,000	708,461,
Philadelphia	26,657,000	14,554,000	14,132,000	6,132,
Cleveland	32,342,000	31,082,000	34,184,000	34,084,
Richmond	18,014,000	17,564,000	6,842,000	6,842,
Atlanta	46,931,000	27,931,000	31,458,000	12,258,
Chicago	355,341,000	238,237,000	270,570,000	111,089,
St. Louis	62,267,000	39,701,000	33,221,000	15,905,
Minneapolis	21,589,000	13,387,000	10,661,000	8,161,
Kansas City	31,323,000	27,393,000	19,458,000	17,418,
Dallas	32,847,000	22,742,000	14,018,000	9,018,
San Francisco	120,351,000	53,955,000	133,434,000	65,724,
TOTALS	$2,265,421,000	$1,300,450,000 c/	$1,883,709,000	$1,000,062,

c/ Includes $285,294,000 noncompetitive tenders accepted at the average price of 98
d/ Includes $139,128,000 noncompetitive tenders accepted at the average price of [illegible]
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.67% for the 91-day bills, and 4.94% for the 182-day bills.

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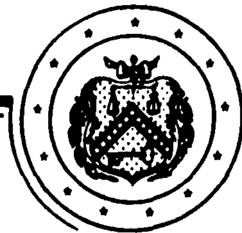
TREASURY DEPARTMENT



WASHINGTON, D.C.

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These rates are on a bank discount basis. The equivalent coupon issue yields are 4.67% for the 91-day bills, and 4.94% for the 182-day bills.

-418

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STATEMENT OF
THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
ON THE CONVENTION ON THE SETTLEMENT OF INVESTMENT DISPUTES
BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS
MARCH 29, 1966

Mr. Chairman and Members of the Committee:

I am happy to appear before you today in support of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

The convention establishes under the auspices of the World Bank a Center for the settlement by means of arbitration or conciliation of investment disputes which may arise between private foreign investors of one country and the government of another country. Work on the convention was initiated by the World Bank in 1962 during Mr. Eugene Black's tenure as President of that institution. Its primary purpose is to improve the climate for private investment in countries which seek to attract foreign capital, particularly the economically developing countries, and thus to stimulate a larger flow of private investment into those countries.

While a private foreign investor normally can adjudicate a dispute with a host government in the domestic courts of that government, the convention represents the belief that in certain cases it may be more appropriate to bring such a dispute before an international forum. The International Court of Justice is, of course, not available to handle private investment disputes since only governments can be parties before the Court. The convention will for the

first time establish an effective international forum to which a private party of one country can take a dispute with the government of another country.

The arbitration and conciliation Center would maintain a Panel of Arbitrators and a Panel of Conciliators from which governments and private investors who had agreed to submit a dispute to the Center either for conciliation or arbitration could select experienced, impartial and competent arbitrators or conciliators. One of the most noteworthy aspects of the Center is that its jurisdiction will be based entirely on the consent of the parties. No party, either government or private, could be required to submit a dispute to the Center unless it had first consented to do so. Such consent would have to be in writing. A government which ratifies the convention would not by this act give its consent to submit any dispute to the Center. Thus, ratification of the convention by the United States will in no way bind or otherwise commit the United States Government to submit any dispute to the Center.

Consent by the parties could be given either at the time an investment is made or after a dispute arises but, once it is given, the convention states that it may not be withdrawn unilaterally. The arbitration mechanism is set up in such a way that refusal by one party to name its arbitrators after it had given its consent to submit a dispute to arbitration would not prevent arbitration from going forward. In such a situation the Chairman of the Administrative Council of the Center could be

requested by a party to appoint the arbitrators not yet appointed. Arbitral awards would be binding on the parties and any monetary damages awarded would be enforceable in the courts of any contracting state. The recommendations of a conciliation commission would not be binding on the parties in view of the essentially voluntary nature of the process of conciliation, although the parties to a conciliation proceeding would be required to give such recommendations their most serious consideration.

As I mentioned, arbitral awards will be enforceable in the courts of contracting states. In the case of federal states like the United States the convention provides that awards may be enforced in or through the federal courts. We have drafted proposed implementing legislation which will provide that arbitral awards under the convention shall be enforceable in United States federal district courts. This draft legislation will soon be submitted to the Congress.

The Center will be located at the headquarters of the World Bank in Washington, D. C., and it will have an Administrative Council which will consist of one representative from each contracting state. The Chairman of the Administrative Council will be the President of the World Bank. Because of the close association of the Center with the World Bank, the Executive Directors of the Bank have agreed to provide the Center with office space free of charge and to underwrite the basic overhead expenditure of the Center for a period of years. In the light of these undertakings, the United States will not be required to make any financial

contribution to the Center at the time the United States becomes a party to the convention or in the foreseeable future. The Center will levy a charge for the use of its facilities which will be payable by the parties to an arbitration or conciliation proceeding, and it is possible that in time the Center will become self-supporting.

In view of the far-flung business activities of our citizens in foreign lands, the convention will be of particular benefit to the United States and its citizens. At the same time the convention is expected to benefit developing countries by stimulating the flow of private capital into those countries. That the convention successfully accommodates the interests of capital-exporting and capital-importing countries is due in large part to the extensive consultations and negotiations which the World Bank conducted with its members prior to the formulation of the final text of the convention.

The convention will enter into force after it has been ratified by twenty countries. Four countries have already deposited their instruments of ratification, so that sixteen more ratifications are needed to bring the convention into force. In addition to the four countries that have already submitted their ratifications, another thirty-one countries have signed the convention. Of these thirty-one, approximately twenty-one may be regarded as economically developing countries and ten as economically developed countries. As these figures indicate, to date there has been a very good response to the convention among developing countries.

There appears to be widespread interest in and support for the convention in the United States. The International Law Committee of the Association of the Bar of the City of New York issued a report in June 1966 urging prompt ratification of the convention by the United States. The Advisory Committee on Private Enterprise in Foreign Aid (the Watson Committee) in its report of July 1965 entitled "Foreign Aid through Private Initiative" also recommended United States ratification.

President Johnson, in transmitting the convention to the Senate, said:

> "The purpose of the convention is to provide facilities for settlement or adjudication of international disputes relating to international private investments and thereby to encourage a larger flow of such investments. . . .
>
> "I recommend that the Senate give early and favorable consideration to the convention and to its ratification."

You may recall that Mr. Eugene Black, at the time of his appearance before this Committee on the Asian Development Bank, also spoke in support of the convention. He said:

> "I urge that this convention be ratified both in our own interest and that of our citizens and in the interest of the developing nations."

Attachment A - List of countries that have ratified or signed the convention.

Attachment B - Value of U.S. Private Direct Investment Abroad.

U.S. Private Direct Investment Abroad and Reinvested Earnings.

Attachment A

Signatures and Ratifications of the Convention as of March 25, 1966

The following 31 countries have signed the Convention:

1. Pakistan
2. United States
3. Tunisia
4. Jamaica
5. Niger
6. Upper Volta
7. United Kingdom
8. Morocco
9. Ethiopia
10. Gabon
11. Cameroon
12. Japan
13. Sweden
14. Somalia
15. Sierra Leone
16. Nepal
17. Luxembourg
18. Denmark
19. Malaysia
20. Italy
21. Ghana
22. Belgium
23. France
24. Congo (Brazzaville)
25. China
26. Togo
27. Federal Republic of Germany
28. Greece
29. Cyprus
30. Liberia
31. Dahomey

The following 4 countries have ratified the Convention:

1. Nigeria
2. Mauritania
3. Central African Republic
4. Ivory Coast

Attachment B

Value of U.S. Private Direct Investment Abroad

(In millions of dollars)

Area	1961	1962	1963	1964
All areas, total	34,667	37,226	40,686	44,343
Canada	11,602	12,133	13,044	13,820
Latin American Republics	8,236	8,424	8,662	8,932
Other Western Hemisphere	954	1,050	1,229	1,386
Europe, total	7,742	8,930	10,340	12,067
Common Market, total	3,104	3,722	4,490	5,398
Other Europe, total	4,638	5,208	5,850	6,669
Africa, total	1,064	1,271	1,426	1,629
Asia, total	2,477	2,500	2,793	3,062
Middle East	1,240	1,200	1,277	1,331
Far East	1,237	1,300	1,515	1,731
Oceania, total	1,108	1,271	1,460	1,582
International Institutions	1,485	1,647	1,733	1,865

U.S. Private Direct Investment Abroad and Reinvested Earnings

(In millions of dollars)

Area	1961	1962	1963	1964
All areas, total	2,653	2,852	3,483	3,784
Canada	568	685	898	748
Latin American Republics	428	236	242	375
Other Western Hemisphere	69	101	177	168
Europe, total	1,057	1,161	1,443	1,752
Common Market, total	406	566	733	889
Other Europe, total	651	595	709	864
Africa, total	156	205	151	175
Asia, total	193	113	285	245
Middle East	103	-9	76	53
Far East	90	122	208	193
Oceania, total (In mi	111	161	180	195
International Institutions	68	189	109	135

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 29, 1966

FOR IMMEDIATE RELEASE

NEW DEPUTY ASSISTANT FOR NATIONAL SECURITY AFFAIRS

Secretary of the Treasury Henry H. Fowler today announced the appointment of Raymond J. Albright as Deputy Assistant to the Secretary for National Security Affairs.

Mr. Albright will be principal assistant to Charles A. Sullivan, Assistant to the Secretary for National Security Affairs. Mr. Sullivan is principal adviser to Secretary Fowler on national security matters. He also directs the Foreign Assets Control activities and serves as principal Treasury liaison with the Department of Defense.

Mr. Albright holds a Ph.D. degree from Harvard University in political science and is a former Fulbright exchange scholar at the University of Vienna, Austria. He has been national security affairs adviser to Mr. Sullivan since May, 1962.

Mr. Albright was born in Reading, Pennsylvania, on April 7, 1929. He received the B.A. degree from Yale University in international relations in 1951.

At the University of Vienna in 1951-52, he studied diplomatic history, international law and economics. He received an M.A. degree at Harvard in 1954 and a Ph.D. in 1961.

Mr. Albright entered government service in 1954 as a foreign affairs officer in the Office for National Security Council Affairs under the Assistant Secretary of Defense (International Security Affairs).

He was on leave of absence for studies at Harvard in 1957. He returned to the Office of the Assistant Secretary of Defense (International Security Affairs) and was assigned to the Office for Policy Planning.

In 1961 Mr. Albright was selected by the Department of Defense for the first exchange of officers with the Department of State, where he served in the Office of Regional Affairs, Office of the Assistant Secretary of State for European Affairs.

In his capacity as national security affairs adviser in the office of the Assistant to the Secretary of the Treasury for National Security Affairs, Mr. Albright was a member of U. S. delegations to NATO ministerial meetings in 1964 and 1965.

Mr. Albright has received a number of awards for outstanding government service. He is also co-author of the book, Forging a New Sword, a study of the Defense Department published in 1958.

His professional and civic activities include the International Affairs Seminars of Washington, D. C., and the Kensington, Maryland, Civic Association. He is a member of the Board of Directors and chairman of the Yale and Government Committee of the Yale Club of Washington.

He is married to the former Ruthmarie Reich and has two sons. They reside at 3609 Dunlop Street, Chevy Chase, Maryland.

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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 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 Feder Reserve Bank on April 7, 1966 (16), in cash or other immediately available fu or in a like face amount of Treasury bills maturing April 7, 1966 (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 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, March 30, 1966
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
(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 April 7, 1966 (X), in the amount of $2,305,621,000 (X), as follows:

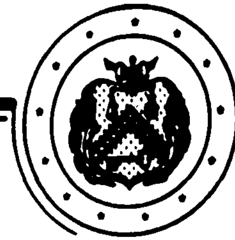
91 (X) -day bills (to maturity date) to be issued April 7, 1966 (X), in the amount of $ 1,300,000,000 (X), or thereabouts, representing an additional amount of bills dated January 6, 1966 (X), and to mature July 7, 1966 (X), originally issued in the amount of $ 1,003,154,000 (XX), the additional and original bills to be freely interchangeable.

182 (XX) -day bills, for $1,000,000,000 (XX), or thereabouts, to be dated April 7, 1966 (XX), and to mature October 6, 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 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 closin hour, one-thirty p.m., Eastern Standard time, Monday, April 4, 1966 (XXX). 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., 99.925. Fractions may not be used. It is urged that tenders be made on the

TREASURY DEPARTMENT



WASHINGTON, D.C.

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range 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 April 7, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 7,1966. 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 fr any Federal Reserve Bank or Branch.

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DRAFT ~~PRESS RELEASE~~

Representatives of the United States and of Spain are expected to hold discussions in the near future on an income tax treaty between the two countries. The proposed treaty will seek to avoid double taxation and otherwise assist individuals and companies of one country engaged in trade or investment in the other.

The proposed treaty will thus be concerned with the tax treatment of trading and other business enterprises, investment income and income from services. In general, it is expected that the convention will be along the lines of those consummated with other Western European countries, taking into account the "model" tax convention developed by the Organization for Economic Cooperation and Development (OECD).

Anyone wishing to comment on the scope of the discussions or to submit information concerning the subjects mentioned above or other subjects relevant to an income tax treaty is requested to address his comments ~~to Assistant Secretary Surrey~~ before April 23, 1966. ~~Communications should be addressed~~ to Stanley S. Surrey, Assistant Secretary of the Treasury, Washington, D. C. 20220

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MARCH 30, 1966

IMMEDIATE RELEASE

UNITED STATES AND SPAIN
TO DISCUSS TAX TREATY

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TREATY

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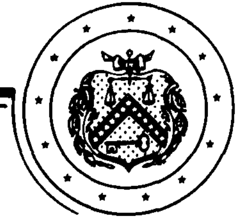
TREASURY DEPARTMENT



WASHINGTON, D.C.

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F-421

TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FISCAL POLICY
OF THE JOINT ECONOMIC COMMITTEE
WASHINGTON, D.C.
WEDNESDAY, MARCH 30, 1966, 10 A.M. EST

Madam Chairman and Members of the Committee:

I am very glad to participate in these Hearings. I believe they are contributing significantly to a clarification of the issues, and to an understanding of the problems involved in designing short range, temporary, tax changes for stabilization purposes.

In keeping with the Committee's invitation, my comments will not be related to the present situation but rather to the general question of using tax changes to dampen down economic fluctuations. Also for this discussion I will set aside the topic of long range tax reform, and concentrate on the stabilization problem.

My own remarks will start from two premises: the first is that it would be desirable to use rapid tax changes for economic stabilization purposes, when such changes are needed. Along with monetary policy and shifts in the timing of Federal expenditures, tax variation has an important role to play in economic stabilization. We need all the weapons we can muster in our arsenal to combat economic fluctuations. The second premise is that by one arrangement or another the legislative processes will permit such temporary tax increases and decreases to be undertaken with sufficient speed to meet stabilization requirements.

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For my own part I would not disagree with a Congressional decision to rely upon the regular legislative procedures, for we have seen that these procedures when necessary can permit rapid action. I will therefore confine my attention to the principles and technical problems and issues relating to the types and design of temporary tax change that might be undertaken.

GENERAL CRITERIA

The essence of the kind of countercyclical tax action we are here concerned with is speed. As we all know inflation and deflation tend to become cumulative, feeding upon themselves and becoming harder and harder to stem or reverse as they follow their course. Yet while our economic forecasting methods have made great progress in recent times, they cannot tell us -- and given the dynamic world we live in I doubt that in the foreseeable future they will be able to tell us -- what action is needed much in advance of the time when that action must be taken. We cannot therefore afford to be slow in taking action once it becomes clear that action is needed. Moreover, the action we take must make its effects felt very promptly. This need for speed and flexibility in stabilization policy points to three basic criteria for assessing specific countercyclical tax measures.

One is simplicity. To meet this requirement the method of tax change should entail a minimum modification of the normal tax collection and payments process. The tax change should be easy for the taxpayer to

comply with and easy for him to understand. And, of course, it should be easy for the Internal Revenue Service to put into effect.

A second important criterion for judging the merits of alternative temporary tax changes is the immediacy and certainty of their economic effects. As I have already observed, there will not be much time to waste once a determination of the need for action is made. Tax action which is delayed in its economic effects even though taken promptly, may well fail in its purpose. In fact, given the speed with which the economic situation can sometimes change there is risk that action of such nature may even be perverse in the timing of its effects and actually aggravate rather than diminish instability.

I believe that this criterion has an important bearing on the question of the extent to which short range tax changes should aim at influencing investment or consumption. It is true that investment is the more volatile sector in our economy and it would be desirable to try to mitigate sharp fluctuations in the investment sector. On the other hand, evidence appears to indicate that the time lags between tax change and expenditure change are substantially less and the effects are more certain for consumption than for investment. Consequently, for countercyclical tax policy it is probably the better part of wisdom to aim at both consumption and investment but to place primary reliance on influencing consumption.

As a third general criterion to apply to the choice of temporary tax changes, the design of countercyclical changes should be such that

the changes can be assured of ready and therefore speedy general acceptance. Proposals that provoke controversy, or that, because of their novelty or complexity, require considerable study to understand and appraise must inevitably cause delay in taking action and therefore cannot really be fitted into a policy of temporary countercyclical tax changes.

Closely related to acceptability is the criterion of symmetry. If legislation is to be rapidly enacted, the Congress and the public must be assured that the legislation does not involve making long run permanent rate changes in the tax system. This consideration requires that the changes be temporary. If after a year or so the change is no longer needed, it should come off in the same way that it went on. If on the other hand it develops that the increase or decrease in revenue needs will be permanent -- as far as anything can be "permanent" in a tax system -- it should be understood that the temporary change itself will expire and be replaced by a long-run tax change developed in the usual way and including whatever structural changes the Congress might think appropriate.

Even temporary changes, however, still involve the problem that different types of change are available and a voter is apt to choose among them on the ground of which one affects him most favorably. But it may be that a type of change that is relatively favorable to a group of taxpayers when an increase is required will become relatively unfavorable when tax reduction is called for.

It has therefore been suggested that the prospects for general agreement on the available types of change might be improved if a further principle of symmetry is advanced that countercyclical tax decreases

should be the mirror opposite of tax increases. Under this principle, tax changes may work to the relative advantage of some people in some stages of the economic cycle but not at others, and the tendency would thus be neither to favor nor disfavor any group over the full course of upswings and downswings. However, in view of the many considerations that enter into the formulation of fair and effective tax changes there is a question as to just how much weight to give to this version of the symmetry principle. Perhaps a more flexible interpretation that permits the inflationary and deflationary phases to be treated somewhat differently might prove more realistic and useful. At least, I would leave this particular aspect of symmetry as an open one to be considered after we have learned more about the entire process of these stabilization tax changes, rather than regard it as a governing concept.

Structural Changes Unsuitable

If these criteria can be considered valid guides for the choice of countercyclical tax measures, it seems clear that proposals which involve structural changes in our tax system are usually of doubtful appropriateness. Or, to put the matter another way, only those structural changes which are readily and generally acceptable, whose effects are immediate and predictable, and which are relatively simple to implement, ought to be considered in connection with short-run stabilizing tax policy. This presumably renders ineligible many of the long standing and thus usually controversial proposals for tax reform.

I think it also precludes adding to our existing structure in such a process a new type of tax, whether the tax is to provide additional

revenue or to permit reduction in yield from existing sources. A new tax always involves a number of basic policy questions which are far more numerous than is usually perceived or recognized when the tax is proposed, and which cannot properly be considered at the same time that attention is being given to temporary stabilizing tax changes. To illustrate this point, I would like to submit as an appendix to this statement, a memorandum which sets forth some of the policy decisions involved in formulating the structure of a value added tax, which tax has been proposed during the course of the Committee's hearings.

This should not be construed to preclude consideration at appropriate times of possible modifications of the present structure that would make it more amenable to implementing a flexible tax policy. For the present, however, I think it advisable to focus on what can be done within the existing structure.

Let me now turn to some of the technical issues that would be involved in temporary changes of specific taxes within our existing structure.

INDIVIDUAL INCOME TAX

On the basis of the criteria of immediacy and certainty of economic effect the individual income tax is probably the most suitable for implementing temporary changes in tax rates. Due to the withholding feature of the tax, a very quick impact on the disposable income of individuals can be achieved. Indeed the sensitivity of this withholding procedure has been increased through the recent adoption of a graduated withholding system.

In turn, the influence of changes in current disposable income on consumer expenditures is probably the most prompt and most reliable influence on aggregate demand that fiscal policy has to work with, whether for short run changes up and down or for longer range changes in the level of demand.

There are numerous ways by which temporary changes in the individual income tax can be produced. One approach suggested by the criteria of simplicity and ready acceptability is to devise a "neutral" type of short range tax change By "neutrality" is meant a tax change that does not attempt to alter the general progressivity of the tax as it exists before the change. Since a number of witnesses have spoken about this neutrality, some discussion of its technical aspects is in order.

"Neutral" Changes

Neutrality is itself subject to alternative interpretations. One interpretation appealing as a theoretical matter to some economists calls for a tax change equal to a uniform percent of the "disposable income" of taxpayers -- that is, the income they have available to spend on goods and services or to save. This approach would leave the relative position of taxpayers measured by their disposable income unchanged. That is, if one individual had 50 percent more disposable income than another before the tax change, he would still have 50 percent more after the tax change.

There are some important practical difficulties with this method, however, which preclude its use for countercyclical purposes. *

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* A definition of "disposable income" would be required whereby the amount for each taxpayer can be determined with the precision needed for a tax measure. Drawing on present tax devices, "disposable income" might be defined as the adjusted gross income of a taxpayer minus his tax liability. "Adjusted gross income" is roughly earnings and business net income before personal exemptions and personal deductions. But under this definition, a temporary tax turning on disposable income cannot be built into either the rate structure, essentially because our statutory rates apply to taxable income, or into the present withholding structure which allows for personal exemptions and deductions. To illustrate, consider a group of married couples all having the same taxable income but, due to differences in itemized deductions and/or family exemptions, have different amounts of adjusted gross income. They would all be liable for the same amount of income tax, as computed from the existing rate structure. However, their disposable incomes, as above defined, would differ from one to the other. Hence, under a uniform percent of their respective disposable incomes, the amount of the temporary tax increase or decrease will vary from one couple to another. But since their taxable income does not vary, this tax change could not be stated in terms of the rate structure, which applies to taxable income.

Thus to compute the temporary tax under this uniform percent of disposable income method, separate computations would be required by the individual on his return and by the employer for withholding purposes.

Another complication under this method if strictly pursued, is that in periods calling for a tax increase, individuals who otherwise would be nontaxable should nevertheless become liable for the temporary tax, and in periods calling for a decrease, nontaxable individuals should benefit from a disbursement from the Treasury. While the logic for these computations may be clear to the economist, it probably would not be readily understood by the average taxpayer.

There are two other simpler methods of implementing individual income tax changes that may also be interpreted as "neutral."

One of these is a uniform point change in tax rates in each bracket. This method may be considered "neutral" since the tax change amounts to a uniform percentage of everyone's taxable income. That is, if all the existing bracket rates were increased by one point, an individual with $2,000 of taxable income would pay $20, and an individual with $10,000 of taxable income would pay $100. Also, since all brackets would be increased by one point, the differences from one bracket to another would remain the same as before the tax change.

Another "neutral" method of changing taxes is by means of a uniform percentage change in tax liabilities. Under this method the relative amount of tax paid by each individual is the same after the tax change as before the change. Thus, under an increase, if one individual's tax liability is 10 percent higher than another's before the change, it will still be 10 percent higher after the change.

The comparative effects of these methods on taxpayers at various income levels is illustrated in the attached table. The table shows how a married couple with two children taking 10 percent standard deduction would fare at various levels of adjusted gross income under a hypothetical tax change that in the aggregate would involve $2.5 billion. Solely for purposes of comparison as to the distribution of the tax change, the uniform percentage of disposable income method is also included in the table.

There it can be seen that at incomes of $3,000 and under where no tax is imposed under present law, neither the uniform percentage of tax liability nor the uniform point change in rates methods would, of course, cause any change in tax liability up or down; the uniform percentage of disposable income method would produce tax changes for these incomes. Beyond this level, the uniform percentage of tax liability method would impose larger tax increases on higher incomes and smaller tax increases on lower incomes than either of the other two methods. Symmetrically, this method would provide larger tax reductions for higher incomes and smaller tax reductions for lower incomes than either of the other two methods. Under the uniform point change in rates method, the differential increases and decreases as between higher and lower incomes fall in between those for the other two methods. Thus for the taxpayer with $4,000 of adjusted gross income, under the uniform percentage of tax liability method the tax would rise or fall by $7; under the uniform point change in rates the tax would

Illustration of Three Tax Change Formulas With a $2.5 Billion Revenue Effect

(Married taxpayer, two children, 10 percent deductions or minimum standard deductions)

AGI	Taxable income	Tax present law	AGI after tax	Uniform percentage change in tax liability (5%)		Uniform point change in tax rates (1%)		Uniform percentage change in disposable income (.66%)	
				Tax increase (+)	Tax decrease (-)	Tax increase (+)	Tax decrease (-)	Tax increase (+)	Tax decrease (-)
$ 2,000	$ 0	$ 0	$ 2,000	$ 0	$ 0	$ 0	$ 0	$ + 13	$ - 13
3,000	0	0	3,000	0	0	0	0	+ 20	- 20
4,000	1,000	140	3,860	+ 7	- 7	+ 10	- 10	+ 25	- 25
5,000	2,000	290	4,710	+ 14	- 14	+ 20	- 20	+ 31	- 31
7,500	4,350	686	6,814	+ 34	- 34	+ 44	- 44	+ 45	- 45
10,000	6,600	1,114	8,886	+ 56	- 56	+ 66	- 66	+ 59	- 59
12,500	8,850	1,567	10,933	+ 78	- 78	+ 88	- 88	+ 72	- 72
15,000	11,100	2,062	12,938	+ 103	- 103	+ 111	- 111	+ 85	- 85
25,000	20,100	4,412	20,588	+ 221	- 221	+ 201	- 201	+ 136	- 136
50,000	42,600	13,388	36,612	+ 669	- 669	+ 426	- 426	+ 242	- 242

Office of the Secretary of the Treasury
Office of Tax Analysis

rise or fall by $10; and under the uniform percentage of disposable income method the change would be $25. For the $50,000 income, the respective tax changes under the three methods would be in reverse order of magnitude: $669, $426, and $242.

I also have included a table which compares the rate structures that would implement the two alternative methods of changing tax liabilities up or down by $2.5 billion. However, it would not be necessary to modify the present rate structure in order to implement either method. If desired, each could be expressed as a separate tax on the return -- a percent of tax liability or a percent of taxable income, added on to the present law tax.

To put either the uniform percentage of tax liabilities change or uniform point change in tax rates into effect, new withholding percentage formulas and new withholding wage bracket tables would be needed. This can be done accurately, since either method can be translated into increased tax rates.

The necessary revision in the withholding rates would require the Internal Revenue Service to print the new withholding percentage formulas and the new withholding wage bracket tables and distribute them to employers. Employers who utilize computers would need time to reprogram them. A minimum of 30 days should be allowed for all this; around 22 days for the Internal Revenue Service to prepare and distribute the new material and about 8 days for the employers to put the change into effect. Presumably, there would be a period before the bill becomes law through Presidential signature (but after the rates become firm) during which the Service could begin its work, so that a period of 30 days from enactment date is not required. It should be

Illustrative Rate Structure for Alternative Income Tax Changes

(Approximately $2-1/2 billion)

Taxable income bracket (single person) ($000)	Present law rates	Uniform 5 percent change in liability		Uniform 1 point change in rates	
		Increase	Decrease	Increase	Decrease
0 - 0.5	14	14.7	13.3	15.0	13.0
0.5 - 1.0	15	15.8	14.3	16.0	14.0
1.0 - 1.5	16	16.8	15.2	17.0	15.0
1.5 - 2.0	17	17.9	16.2	18.0	16.0
2.0 - 4.0	19	20.0	18.1	20.0	18.0
4.0 - 6.0	22	23.1	20.9	23.0	21.0
6.0 - 8.0	25	26.3	23.8	26.0	24.0
8.0 - 10.0	28	29.4	26.6	29.0	27.0
10.0 - 12.0	32	33.6	30.4	33.0	31.0
12.0 - 14.0	36	37.8	34.2	37.0	35.0
14.0 - 16.0	39	41.0	37.1	40.0	38.0
16.0 - 18.0	42	44.1	39.9	43.0	41.0
18.0 - 20.0	45	47.3	42.8	46.0	44.0
20.0 - 22.0	48	50.4	45.6	49.0	47.0
22.0 - 26.0	50	52.5	47.5	51.0	49.0
26.0 - 32.0	53	55.7	50.4	54.0	52.0
32.0 - 38.0	55	57.8	52.3	56.0	54.0
38.0 - 44.0	58	60.9	55.1	59.0	57.0
44.0 - 50.0	60	63.0	57.0	61.0	59.0
50.0 - 60.0	62	65.1	58.9	63.0	61.0
60.0 - 70.0	64	67.2	60.8	65.0	63.0
70.0 - 80.0	66	69.3	62.7	67.0	65.0
80.0 - 90.0	68	71.4	64.6	69.0	67.0
90.0 - 100.0	69	72.5	65.6	70.0	68.0
100.0 and over	70	73.5	66.5	71.0	69.0

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Office of Tax Analysis

noted that employers have been given about 30 days to effect the change-over this year from flat rate withholding to the new graduated plan. However, this longer period is needed since they must obtain new withholding exemption certificates from their employees. There would be no necessity for this in changing over from one graduated rate structure to another; therefore, 8 days seem sufficient for employers under these circumstances. This was, by the way, the period allowed employers for the change-over under the Revenue Act of 1964.

In general -- and this is the significant point in all this technical discussion of "neutral" methods -- one should really not exaggerate what amounts to fine points of difference between the uniform percentage change in tax liability method and the method providing a uniform point change in tax rates. Each is simple to express in the tax return and to understand. Each therefore seems appropriate as a method for countercyclical change in the individual income tax.

Economic Effect

With regard to the economic effectiveness of temporary individual income tax changes, the relevant consideration is the impact within a relatively short period of time and within the context of a cyclical up or downswing. In this context, expectations can be very important; and if a countercyclical fiscal policy is followed, it in itself will have an influence on expectations. If the policy inspires confidence that it will succeed in dampening fluctuations, then the expectations it generates will be favorable. In a downswing, consumers may be buoyed up by anticipation of the tax cut, and also by anticipation of its success in stemming the decline. In a boom period, consumer expenditures may be abated by expectations of counterinflation tax policy. Such behavior would also, of course, have an impact on investment.

Some economists have argued, on the other hand, that a temporary change in tax rates might be less effective than a permanent one, because it might not lead consumers to alter their established spending habits or lead businessmen to change their sights on long term rates of return on investment. Such factors may be relevant, but they may still be considerably outweighed by the important confidence effects of adjusting fiscal policy appropriately to changing economic circumstances. These confidence effects cannot be included in any statistical estimates of the likely magnitude of the short range effects of a tax change on GNP. As to the quantitative estimates that can be made, I gather that economists would judge roughly that within two to four quarters after the effective date, the impact on the annual rate of GNP would range between $1 billion and $2 billion per $1 billi of change in individual tax liabilities.

Capital Gains

With regard to capital gains, the question is whether or not the tax rate should go up or down with personal income tax rates. Capital gains which are not taxed at the ceiling rate of 25% are taxed at a rate which is i effect 50 percent of the marginal income tax rate. It seems reasonable to continue the 50 percent inclusion rule through a temporary tax change which would make the gains subject to tax increase or decrease that was proportional to the tax change on other income.

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As to whether the alternative ceiling rate on capital gains should be changed, one could raise the question whether the occurrence of a temporary increase or decrease might cause investors to speed up or slow down sales that they would have made in the near future. On balance changes of a point or two in the ceiling rate seem unlikely to have this effect. This issue might well be decided on the basis of the general attitude toward the fairness of including the ceiling capital gains rate in a program of temporary changes in the individual income tax.

Low Income Taxpayers

An interesting departure from simple, symmetric up and down changes in rates was proposed to the Committee by Professor Carl Shoup. He suggests that, for the anti-inflation phase, low income taxpayers be excepted from the increase. They would, of course, then get no benefit when the increase was taken off. As a technical matter, this could be done in a number of ways. Using Professor Shoup's suggested levels, all the surtax rates could be raised except the first few. Or the increase might be expressed as a percentage of that part of an individual's tax that exceeded, say, $300, or some percentage of the part of his taxable income that exceeded, say, $2,000. The device could be structured to exempt only low income taxpayers, and not thereby extend the benefit of the exemption to taxpayers in higher brackets.

To illustrate the effect of this suggestion, consider that initially a uniform 5 percent increase in all tax liabilities is planned, designed to raise $2.5 billion in revenues. Then suppose the plan were modified to impose no tax increase on the first $300 of tax liability of married couples and no increase on the first $150 of tax for single individuals.

The result of this modification by itself would be to reduce the overall revenue increase by $600 million, of which about $160 million would benefit married couples with less than $2,000 of taxable income, and single persons with less than $1,000 of taxable income. The maximum individual benefit would amount to $15.

To offset the revenue loss, the percentage increase would now have to be raised from 5 percent to 6.5 percent. The net effect of shifting from the alternative of a uniform 5 percent increase in all liabilities to a 6.5 percent increase on tax liabilities in excess of $300 for married couples can be illustrated in terms of a married taxpayer with two dependents using the standard deduction. No tax increase would be imposed on this family under the 6.5 percent formula, if its adjusted gross income were $5,000 or under; if its AGI were between $5,000 and $9,500 the increase under the 6.5 percent alternative would be less than under the 5 percent (with no exemption) alternative, and more than under the 5 percent (with no exemption) alternative if the family's income exceeded $9,500.

CORPORATE INCOME TAX

There are a number of reasons -- both economic and equity -- for considering the corporate income tax in a balanced package of contracyclical income tax changes. Broad neutrality as between individuals and business, which is predominately corporate, is probably desirable. Moreover, individual income tax rate changes would apply to unincorporated businesses. Appreciable disparities in the treatment of corporate and noncorporate

enterprise would affect the choice between the corporate and noncorporate form of business organization in the important area of small and medium-sized businesses. Furthermore, most observers -- including both expert and nonexpert opinion -- believe that if higher burdens are placed on individuals in response to economic conditions, even though the emphasis may be on curtailing consumption, corporate business should be called on also to make some contribution. Changes in corporate tax payments may influence both dividend payments and investment outlays. This belief probably does not apply with the same force to tax decreases during a downswing. Still, reduction in the corporate tax paralleling that in individual taxes may be appropriate to maintain a simple symmetry over the cycle and also because of its economic effects.

Changes in corporate tax can be made in a manner more or less parallel to the changes discussed for the individual income tax. A simple change in the tax applying to all corporations could be achieved on either the point change method or the percentage of tax liability method. In the case of a point change, the normal tax rate, which is now 22 percent, could be changed by the desired number of points. At presently projected 1966 levels of income and profits, a one point change in the normal tax would produce approximately a $700 million change in corporate tax liabilities. This figure is net of an offsetting small change ($40 million) in tax yield from the assumed effect on dividends.

As an alternative, a uniform 2-1/3 percentage change in corporate tax liabilities might be used, which would also produce a revenue change of $700 million. As compared to the one point change in the normal rate, this method would produce a larger increase and a larger decrease in tax liabilities of large corporations, and a smaller increase or decrease in the liabilities of smaller corporations.

A one point corporate rate change confined to the surtax rate would produce a change in yields of about $630 million. This would exempt small corporations from participation in the countercyclical policy. However, any merit that may inhere in the exclusion of low income groups from a temporary increase in the individual rates does not appear to carry over to the corporate sector. Moreover, varying the spread between the normal rate and the surtax rate would aggravate the tax preference for multiple surtax exemptions.

With regard to economic effectiveness of changes in corporate rates, a temporary change in corporate taxation works primarily through its effects on cash flow, a key factor in investment calculations and decision-making. Cash flow is usually measured after book accruals of tax liability. But the available flow of corporate spending is also influenced by actual tax payments, particularly in periods of (a) monetary restraint or (b) hesitancy on the part of business to borrow.

The fully current tax payment system for corporations introduced in the 1964 Revenue Act, the transition to which will be made by 1967 under the accelerated payment provisions of the Tax Adjustment Act of 1966, just enacted by the Congress, ensures that the actual cash payment and cash flow effects of corporate tax changes will make themselves felt promptly. By 1967, all corporate taxes in excess of $100,000 will be subject to declaration and payment of estimated tax beginning in April of the current income year for a calendar year corporation.

No more than 30 days would be necessary to implement a corporate tax change through notifying all corporations of the applicability of new rates. The effect on aggregate demand and GNP would almost certainly be slower than from a change in the individual tax rate, although again expectations factors of a reinforcing nature would probably be operative as a result of anticipation of the countercyclical policy. The magnitude of the short run effect is certainly no easier to estimate than for changes in the individual rates. Perhaps the GNP effect, at annual rate, would reach $1 billion per $1 billion of tax change, within four quarters after the change went into effect.

Excess Profits Tax

The excess profits tax is generally recognized as an inherently defective tax and barely satisfactory as a taxing instrument in periods

of severe defense emergency. The prospect that an excess profits tax would be reactivated from time to time in a peacetime economy as a countercyclical measure would have serious adverse effects on business planning. New businesses and new risk ventures would face the prospect of severe marginal tax rates on the rewards of success whenever they coincided with exuberant upswings in the economy. Such a prospect would have deterrent effects on growth and innovation.

New ventures and expansion would tend to be undertaken only within the framework of corporate entities which would be expected to enjoy a favorable position with respect to an excess profits tax, because of available historical earnings records, invested capital structures, or eligibility for accustomed special relief features. The timing of deductible expense outlays would be arranged to maximize the costs deducted in excess profits tax periods, thus accentuating economic strains in a period of high prosperity. Production of new or scarce items likely to yield temporary high profits would tend to be inhibited during excess profits years, with the consequence that shortages would be aggravated in these periods. Disproportionate energies would be devoted to the planning of business activity within the protection of various excess profits tax shelters.

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INVESTMENT CREDIT

The possibility of changes in the investment credit received considerable attention during these Hearings. Some economists have stated that investment demand may be reaching excessive levels, either because it strains our capacity for producing more plant and equipment or because it generates a capacity for producing final goods in excess of the economy's long term needs. These economists have contended that the very factors that made the investment credit a particularly successful stimulus to investment now recommend its modification or suspension in order to moderate an overly buoyant investment demand. A temporary suspension could, they argue, have especially favorable effects in encouraging business firms to defer investments to a period when they might be more appropriate to the state of the economy.

Without entering the argument of whether the present level of investment demand is excessive, I would like to indicate that there are structural and other aspects of the investment credit which need to be considered in evaluating its possible countercyclical use.

I would like to point out first that, in the recent debate in the Senate over suspension of the credit, those who advocated suspension felt required, and understandably so, to still allow the credit with respect to machinery and equipment already on order. This would remove a large area of current and future expenditures from the scope of the suspension and thereby reduce its current economic and revenue effect. At the other

end, the fact that the credit is earned when the equipment is installed -- and not when the equipment is ordered or when expenditures for it are made -- would always leave the credit still applicable to orders entered during the suspension period for equipment whose lead time would place the installation after the suspension was over. This also reduces the scope of the suspension. Moreover, the equipment left to be affected by the suspension -- that both ordered and installed in the suspension period -- in large part would be the sort of machinery and equipment, that, in coming on stream, would be helpful in meeting shortages.

Actually, I think people who have advocated suspension of the credit really have an image of its operation that would have it turn on orders rather than installations as it now does. This possibility was explored at the time the credit was originally set up and found not to be feasible.

Many advocates of suspension of the credit have also thought of the suspension as part of a program that would include both individual and corporate tax increases. In such a program, to the extent the suspension of the credit would be effective, the question would have to be considered whether this action, taken together with the rest of the program, would provide too much restraint on investment.

Also, it must be kept in mind that the investment credit has a long run purpose of stimulating modernization and expansion of our machinery and equipment. This is necessary to give us the industrial structure needed to meet our domestic growth needs, to fulfill our international obligation, and to maintain the strong competitive position required

for our balance of payments goals. Indeed, countries such as the United Kingdom and France with their own problems of inflationary pressures are currently moving to provide incentives to business investment.

So far I have discussed the counterinflationary aspects of a change in the credit. But there are analogous questions with respect to temporary increases in the credit to counter deflationary forces. A temporary increase in the investment credit rate, say, from 7 percent to 10 percent would result in an unexpected windfall on outstanding commitments which had been made in expectation of the existing 7 percent credit but which would receive an additional 3 percent. As a result, the increase would, in effect, be retroactive, particularly with respect to the portion of the costs of assets placed in service during the increase period which represented expenditures or costs allocable to a prior period. At the same time, the retroactive feature of such an increase would be necessary and desirable to assure that the prospect of getting a higher credit in a depressed period would not lead to delays in investment and slowdowns of projects already under way at a time when some increase in the credit might be expected.

A temporary increase in the credit would stimulate chiefly short lead time items which could be completed with some confidence in the increase period. Apart from its contribution to corporate cash flow, the increase would not effectively stimulate investments, completion of which would take some time, leading to an installation after the credit had reverted to its normal level. The way a credit increase

would help to combat recession would be primarily to hasten to completion projects already under way and to stimulate demand for individual standard pieces of equipment, such as trucks, fixtures, and office equipment. Any use of a temporary increase in the investment credit as a counterrecessionary measure would depend upon the development of sufficient retroactivity to insure that the prospect of an increase would not add to uncertainties during periods of economic hesitancy and would not slow down investment in such a way as to aggravate depressed conditions of investment demand.

In considering countercyclical variations in the investment credit, it is important to recognize that investment demand will be influenced by corporate tax changes and -- indirectly but possibly even more significantly -- by variations in individual income tax rates. These effects would cover a wider range of investment -- including inventories and accounts receivable -- than would a change in the investment credit. Changes in the investment credit would concentrate on machinery and equipment acquisitions. The proportion of total corporate plant and equipment outlays eligible for the credit in 1963 was about 60 percent, and a share of this was subject to only the 3 percent rate of credit applicable to certain public utilities. In general, decisions in this area must involve the question of whether the concentration on a particular sector of business outlays or whether a comprehensive approach to influencing business outlays would be more effective in serving the needs of economic stabilization.

USE OF EXCISE TAXES FOR COUNTERCYCLICAL PURPOSES

An attempt to include excise tax changes as part of a countercyclical tax program would give rise to a number of problems and difficulties.

A major problem would arise from the fact that the federal excise system as of now is made up almost entirely of three groups of taxes, (1) the sumptuary taxes on liquor and tobacco; (2) user charges and dedicated taxes; and (3) regulatory taxes. In addition, there are the taxes on new passenger automobiles and telephone service. But the telephone tax under present law is scheduled to be repealed in 1969. As for the automobile tax, the President has recommented that the 1 percent tax which will remain in 1969 be dedicated to the Highway Trust Fund to pay the costs of the programs of highway safety and beautification.

This threefold classification of the excise system severely limits the adjustments that could be made to the existing excise taxes for countercyclical purposes. The regulatory taxes raise little revenue and do not lend themselves to adjustments for revenue purposes. Those taxes that are levied as user charges or whose revenues are dedicated to special purposes also do not readily lend themselves to anticyclical adjustments. The taxes are designed to charge users with the cost of certain public expenditure programs, and their use in a countercyclical manner might be considered discriminatory and inequitable. To raise charges above user cost levels in an inflationary period would be a form of discriminatory penalty tax

on the users of the services; a reduction below user cost levels would in effect be a subsidy of the users of the service. It is questionable if public policy would be well served by alternatively penalizing and subsidizing, for example, users of the federal airways system and thus air transportation.

It would be possible to revise liquor and tobacco taxes up and down according to cyclical revenue policy (the British have done this a number of times), but there are constraints on how much could be done. Taxation of liquor and tobacco is supported by the public for sumptuary as well as revenue reasons. At the same time, the policy has been to avoid severely depressing these industries. If the desired fiscal policy called for a reduction in federal tax rates, sumptuary considerations might argue against a drastic reduction in alcohol and tobacco taxes. On the other hand, while fiscal considerations might warrant substantially higher tax rates in general, the effect on the alcohol and tobacco industries might lead to little or no tax increase on their products.

Finally, taxes that affect prices always incur the danger of setting up perverse expectation effects. If consumers anticipated that prices were going to rise as a result of an increase in the tax, they would accelerate their purchases, thereby aggravating inflationary pressures. On the downside, they may hold back purchases in anticipation of tax reduction, thereby aggravating the decline at least in the early stage before the decrease in tax was actually in effect.

In view of the structure of the present excise system then, it would be difficult to utilize existing excises as much of a countercyclical measure. Nor would it be at all desirable to impose new selective excises or reinstitute those that have been repealed. The excise tax action of last year was properly based on the idea that the Federal tax system should de-emphasize selective excises, because of their regressive, and discriminatory effects, and because they often pose compliance difficulties.

PAYROLL TAX

The payroll tax is connected with the social insurance system, and countercyclical changes in contribution would seem inappropriate. Increases in the tax would put a relatively large burden on low income workers and would scarcely be neutral. At the same time, the employer's portion is closely related to costs, and it would be uncertain as to how changes in the employer's tax would affect business behavior and prices.

The timing of otherwise desirable payroll tax changes must, however, be considered in light of economic conditions so as to avoid a destabilizing economic impact. There may be opportunities to alter the timing of such changes to assist economic stabilization without conflicting with the long run principles of financing appropriate to the social insurance system.

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APPENDIX

Some Policy Decisions Involved in Formulating the Structure of a Value-Added Tax

1. Scope of Tax

Would the tax apply to the corporate sector only or cover unincorporated businesses as well?

Would the tax apply only to manufacturing and distribution of goods? Or would it also apply to services, including domestic service, casual labor, legal, medical, accounting, and various other personal and professional services? Should retailing be included, in view of widespread State and local retail sales taxes?

2. Special Rates and Exemptions

Should the tax apply uniformly at a standard rate to all goods and services or should it be differentiated, as in France, so as to bear more lightly on "necessities" as against "luxuries"?

Should exemptions be provided for certain end-products such as fuel and medicine? Or for certain uses of end-products such as purchases for use of churches, schools, hospitals, and charitable or scientific institutions?

Should relief be granted particular industries with unusually high value-added margins?

3. Agriculture and Small Business

Should farmers, shopkeepers, barbers, bakers, restauranteurs, cleaners and laundrymen, tailors, radio and TV repairmen, or small businessmen generally be required to pay the value-added tax?

Should other vertical or horizontal exemptions be provided, i.e., by size of business or by type of activity? If so, at what size level (sales volume, employment, etc.) should the exemption be determined?

4. Financial, Real Estate, and Royalty Income Sector

How should interest, rent, and financial intermediaries be treated under the tax? Presumably interest and rent payments would normally be taxed as costs to the payor. If interest is taxed generally as a cost or value-added item, would this rule work hardship on interest-paying financial intermediaries such as banks, life insurance companies, and similar savings institutions, a large part of whose costs are interest payments to depositors, policyholders, etc.?

Should rents of real estate enterprises owning apartment houses, office buildings, and commercial industrial properties be taxed? Should the tax be imposed on the rent payor or payee?

5. Definition of the Value-added Base

Should all depreciation or expenditures on capital goods be disallowed as costs (GNP type of value-added tax)? Or should depreciation be allowed on depreciable assets ("income type" of value-added tax)? Or should the entire purchase of depreciable assets be deducted as a cost ("consumption type" of value-added tax)? If the consumption type of tax is adopted, how is the transition handled with respect to pre-existing assets which were not deducted at purchase or previously depreciated for purposes of the new tax?

6. Mechanics of Application

Should the tax be applied (1) to value-added defined as sales less deductions for previously taxed purchases, (2) to the entire sales of the firm, as in France, subject to a credit for value-added tax paid on purchases invoiced to the purchaser, or (3) directly to value-added costs (i.e., wages, interest, previously untaxed purchases, etc. plus profits)?

7. Rebate on Exports

Presumably imports would be taxed in full while exports would be eligible for rebate of cumulative tax paid on the exported commodity. How is the export rebate effectuated? By refund only to the exporter? By refunds tracing taxes back to each of the firms which have contributed to the export value as the goods moved through the various stages of production and distribution?

How will "reexports" containing previous imports be handled? How will "reimports" containing previous exports be handled?

8. Special Income and Cost Problems

Should capital gains be included in the value-added base? (If not, potential profits taxable under the value-added tax could be capitalized by sale and removed from the value-added base.)

Should depletion be taxed as a value-added item? If deductible, how should depletion be calculated for value-added purposes?

Should special treatment be accorded "fringe benefit" compensation, including pension trust contributions and profit-sharing benefits?

Should tax payments of any kind be excluded from the firm's value-added base? Should different taxes be treated differently?

9. Public Enterprise, Tax-exempt Institutional Activity, and Cooperative and Mutual Enterprise

Should the value-added tax be applied to government-owned enterprise? To enterprise conducted by tax-exempt institutions? To cooperatives and mutuals? How should clubs (bars, restaurants, recreation facilities) be treated?

10. Reporting and Collection Procedures

Would the value-added tax return be integrated with the regular income tax or treated as a separate tax?

How would current reporting and tax payment be carried out? On a monthly basis? Quarterly basis?

11. Effect on Structure of Other Taxes

What effect would a change in the corporate tax as a consequence of a partial shift to value-added taxation have on other parts of the tax system, such as the tax on capital gains of individuals?

STATEMENT BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON BANKING AND CURRENCY
THURSDAY, MARCH 31, 1966, 10:00 A.M.

Mr. Chairman and Members of the Committee:

I welcome this opportunity to be with you today to endorse and urge prompt enactment of S. 2499, a bill to provide for the sale of participations in pools of loans held by the Small Business Administration.

S. 2499 would authorize SBA to issue and sell participation certificates based on certain pools of loans held by SBA and would authorize the sale of the participations in SBA loans by the Federal National Mortgage Association acting as trustee.

This Committee has already received testimony from the Executive Administrator of the Small Business Administration, from the President of the Federal National Mortgage Association, and from the Director of the Bureau of the Budget with regard to (1) the importance of this legislation in meeting the pressing needs of the Small Business Administration for additional loan funds, (2) the manner in which loan pools would be created and participation certificates issued under this legislation, and (3) the importance of this bill to the President' program

for substituting private for public credit.

Accordingly, my prepared statement deals primarily with the proposed sale of participation certificates within the context of over-all credit program policy. In this regard, I should also mention that legislation will shortly be transmitted by the President to carry out his 1967 Budget proposal to authorize other agencies to sell participations in pools of their loans. S. 2499 is consistent with this legislation but the broader bill will contain additional features which are necessary or desirable to permit expanded use of the participation sales techniques by other agencies having credit programs.

The basic objective of S. 2499, i.e., to provide for greater private lender particpation in the loan programs of SBA, has been a continuing objective of the Congress and successive Administrations over the past decade or so with respect to almost all Federal credit programs. The Eisenhower Administration, for example, made various efforts to foster the development of insured and guaranteed loan programs, rather than direct Federal loans, and to provide for the sale of direct Federal loans to private lenders. Also, the Commission on Money and Credit in 1961 and President's Kennedy's Committee on Federal Credit Programs in 1963 placed primary emphasis on the development of effective

private credit markets.

I believe that this philosophy of encouraging the development of private credit markets was well expressed in the following statement from the Report of the President's Committee on Federal Credit Programs:

> "In our society, there is a presumption that the allocation of credit for essentially private purposes should be a function of private markets. Accordingly, the Committee believes that Federal credit programs should, in the main and whenever consistent with essential program goals, encourage and supplement, rather than displace private credit. This is more than a matter of basic economic philosophy. It also recognizes the fact that the private market will continue to account for the great bulk of all credit extensions. More can be gained in the end, therefore, if Federal credit programs, by working through the private market, help to make it stronger and more competitive, than if they unnecessarily preempt functions that private parties can potentially perform effectively. Moreover, by making use of the private market with its existing institutional arrangements and skills to the extent consistent with essential program objectives, the problem of administering Government programs can frequently be eased, and the essential Government aid made more conveniently available to potential borrowers."

The Committee recommended that in the event Federal credit assistance is deemed necessary the following general order of priority should be followed in determining the specific type of Federal aid to be offered:

(1) Government guarantees or insurance of private loans;

(2) Government aid to newly sponsored types of private institutions;

(3) Establishment of a Government secondary market;

(4) Direct Federal loans.

As you can see, the Committee placed primary emphasis on developing Federal guarantee and insured loan programs and believed that direct Federal loans should be relied upon only if other measures were ineffective. I believe that it is particularly helpful to look at the small business loan program in this context because SBA has, in effect, employed all four of these types of Federal credit aid and has made considerable progress in moving up the scale from direct Federal loans to guaranteed loans.

The Small Business Administration direct loan programs were first authorized by the Congress in the Small Business Act of 1953. Even then, the Congress recognized the desirability of encouraging private lender participation in this program by writing into the enabling legislation authority for SBA to make loans in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis. The deferred participation loans made by SBA in cooperation with private lenders amounted in effect to the establishment of a Government secondary market in that the participating private lender was permitted to sell its share of the loan back to the Federal Government at any time the private lender wished to use the funds for alternative

purposes. Thus, SBA deferred participations were somewhat similar to, although lacking the flexibility of, the secondary market operations of FNMA.

The Congress later provided, in the move toward greater private lender participation in the small business loan program, for Government aid to newly sponsored types of private institutions. This was provided by authorizing Federal charters and initial capital advances to small business investment companies under the Small Business Investment Act of 1958.

Thus, the SBA program has progressed to the point where successful efforts can be made to provide for even more effective types of private lender participation through the development of Government guarantees or insurance of private loans. The SBA deferred participations mentioned above were in effect a form of Federally guaranteed loan and, more recently, SBA has been able to sell some of its direct loans on a guaranteed basis to private lenders, with the servicing of the loans retained by SBA. S. 2499 would authorize SBA to employ yet another type of loan guarantee technique; i.e., the sale of guaranteed certificates of participation in pools of SBA loans.

As a financing technique, the participation instrument has been successfully employed since 1962 by the Export-Import Bank, and

since 1964, by FNMA. The Housing and Urban Development Act of 1965 broadened the participation sales authority, which had been limited to first mortgages, to permit FNMA to sell interests in any loans held by any constituent agency of the Housing Department. Loans held by the Veterans Administration have been successfully sold in substantial volume to private lenders through the use of FNMA facilities and the participation instrument.

The sale of participations with respect to most SBA loans would be much more effective than direct loan sales in that participation certificates would be more flexible and thus more readily saleable, at less cost to the Government, to banks and other investors. The authority in S. 2499 for SBA to name FNMA as trustee for the purpose of selling participations would help to assure that the participations would be sold in the most orderly fashion and on the most advantageous terms and conditions.

Within the above context of over-all credit policy and the various financing techniques which have been employed over the past decade in the SBA program and in other Federal credit programs, the participation instrument is a logical extension of past policies and practices and this financing technique is the most effective means of encouraging private participation in certain Federal loan programs while at the same time minimizing the cost

to the Federal Government and to the borrower obtaining private funds.

Guaranteed participation certificates have striking similarities to the financing techniques employed under, for example, the major programs of the Federal Housing Administration. That is, the Government performs a function similar to that of the mortgage banker in originating the loan and obtaining the loan funds from private financial institutions. From the standpoint of the private investors the overriding consideration is the protection provided by the Federal guarantee -- not whether the guarantee is in the form of FHA insurance of an individual loan or in the form of a Federal guarantee of a participation in a pool of loans. In both cases the Government underwrites the credit risk. Perhaps a more closely related financing technique is that which has been employed for many years by the Farmers Home Administation in which that agency originates and services small loans to farmers which are later packaged by Farmers Home and sold on a guaranteed basis to private financial institutions. The essential difference between this technique and the participation certificate is that the participation represents an interest in a pool of guaranteed loans, while a guaranteed package of loans sold by the Farmers Home Administration

to a single investor, generally in fairly large size, is in effect a separate pool. That is, the investor may buy, say, $1 million worth of individual loans having an average size of $15 thousand. The default of any one of these individual loans in the pool, however, does not affect the other loans nor does it in any way result in any loss to the private investor.

Also, the Federal Ship Mortgage Insurance program authorized under the Merchant Marine Act of 1936 is financed in a manner similar to the participation technique. That is, the ultimate source of loan funds under that program is from large investors purchasing bonds (Merchant Marine bonds) issued under a trust established for the purpose of financing ship construction. Thus, the Merchant Marine bonds are participations in a Federally guaranteed loan.

Arrangements similar to participation certificates have been employed successfully by the Federal Government and by private financial intermediaries, sometimes in cooperation with each other, for many years in financing housing, agriculture, transportation, small business, and other areas.

What I have attempted in these brief comments is to show that the participation technique has been successfully employed in many areas, that the use of this method is a natural evolution

in the financing of Federal credit programs, and that it is an effective and accepted means of encouraging the flow of private capital into programs requiring Federal assistance. Again, I want to endorse S. 2499 and urge it's prompt passage.

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TREASURY DEPARTMENT
Washington

FOR RELEASE PM NEWSPAPERS
Thursday, March 31, 1966

REMARKS BY THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BRADLEY UNIVERSITY, PEORIA, ILLINOIS
THURSDAY, MARCH 31, 1966

STATE OF THE NATION'S ECONOMY

In discussing with you today the state of the national economy, I should begin by saying that it is good -- very good. We are now in the sixth year of the longest and strongest economic expansion in the entire history of the United States. But this expansion did not come about by accident. It was the result of creative,intelligent economic planning that began under President Kennedy in 1961 and has continued under President Johnson since 1963.

The Employment Act of 1946 recognized that the federal government must accept a vital share of responsibility for the performance of the American economy. The goals of this Act were precise: maximum employment, maximum production, and maximum purchasing power. In vigorously pursuing these objectives both President Kennedy and President Johnson have used fiscal and monetary policy, often in unprecedented, original ways, to accelerate and nurture continuous economic growth and expansion. We advanced from a country accustomed to periodic recessions to a nation capable of sustaining balanced economic growth during peace time. The past five years of unprecedented prosperity underwrite with emphasis this fact.

Our economy has been so healthy and our economic progress so rapid that it is sometimes difficult to appreciate and evaluate the gains we have made and from which all individuals have benefited. President Johnson recently pointed out that:

> In only seven other countries of the world is total output in a year as large as the increase in our output in 1965. Our stock of private plant and equipment, valued in constant prices, increased as much as in 1965 alone as it did in the four years 1957 - 1960. The increase in Federal cash raceipts between fiscal years 1961 and 1967 -- in spite of $20 billion of tax cuts -- will exceed the entire cash receipts of the federal government in any peace time fiscal year prior to 1951.

During the past five years our Gross National Product -- the total value of all the goods and services we produce in a year -- has steadily increased. Since January, 1961, our GNP has grown from an annual rate of $504 billion to $697 billion -- an increase of $194 billion or over 38 percent. Corporate profits have jumped 71 percent, to almost $77 billion. The unemployment rate has shrunk from a 1961 high of over 7 percent to less than 4 percent, and is now the lowest in more than 11 years.

And yet during this long, vigorous economic expansion -- despite steadily rising individual and business incomes -- prices have been remarkably stable. In fact, the United States has enjoyed greater price stability than any other industrialized country in the world -- and by a good margin.

The balance of payments deficit which in 1960 totaled nearly $4 billion, shrank to less than $1-1/2 billion during 1965. Although we have not reduced to an absolute minimum this imbalance, we have by the excellent progress already made strengthened the dollar throughout the world and restored world-wide confidence in its stability.

The federal budget deficit which in fiscal 1959 was over $12 billion -- the highest peace time level in history -- declined to $3-1/2 billion during the fiscal year ending last June 30th. In fiscal 1967 it is expected to fall below $2 billion. I can tell you from first hand experiences that President Johnson means business when he demands that government agencies exercise strictest economy in all spending programs.

This unprecedented economic success in which we all have shared came about primarily because of the excellent cooperation between the private public sector of our economy and the federal government. Our record, as President Johnson has emphasized, "is a tribute to all sectors of our economy -- labor, business, and our public policy." We in the Treasury are cognizant and deeply appreciative of this creative partnership and prosperity and look forward to its becoming more viable and meaningful in the years ahead.

For we are concerned more with the future than with the present. Can we continue the record smashing advances in output and income that we have made? Can it be done without inflation? Can we slash the incidence of poverty, ignorance and disease? Can we bear our rising defense burdens without jeopardizing essential social, medical, and scientific programs?

These are vital questions, for no matter what pursuits we follow as individuals, we are all inextricably bound together as a people toward achieving common national goals. Failure to achieve these goals, or to progress toward the realization of our national purposes, will result in

failure of our own individual efforts as citizens and human beings in search of individual and family goals. Success in realizing our national purposes, on the other hand, will bear fruits for every American.

If adequate economic growth over the coming year now seems assured, what about the danger of over-heating the economy -- of inflation? The Gross National Product now exceeds an annual rate of $700 billion. The yearly increase in output required just to keep our productive resources employed at the present level is in the area of $40 billion. This $40 billion represents the added volume of goods the economy is able to produce each year to improve our living standards, our environment, our national defense capability, and the capacity to fulfill our national responsibilities abroad. It is in this context that the increase of federal expenditures required to meet the problem in Viet Nam, as well as other vital national needs, should be assessed. I believe our economy has the strength, stability and vigor to do the job.

Nevertheless, it is always a mistake to assume that there is no danger of inflation. We are keeping a close watch on developments and, although there certainly has been some upward pressures on prices, we find the American public -- as businessmen, as workers, as consumers -- have on balance acted with sensible restraint. President Johnson is deeply concerned with this problem. He has been in daily contact with banking and business leaders throughout the country. Only last night he met with a distinguished group of them at the White House. There are many ways to deal with this problem. An increase in taxes is but one. Equally important is voluntary restraint on capital investments, consumer spending and whole-hearted cooperation on the part of everyone to divert money away from the stream of spending into the stream of saving. We are confident that the good record of restraint already achieved will be continued.

It is in this context that the Treasury's U. S. Savings Bonds Program plays a vital role in the period which lies ahead. For the purchase of these bonds represents money savings that will shrink the demand for goods and services. Moreover, savings bond investments are a vital service of non-inflationary financing for the government. Thus, the Savings Bonds Program represents one of our most effective anti-inflationary programs. By their purchase, as President Johnson recently said, "every one of us can contribute to conserving the buying power of our ... dollar."

The financial security of the nation, as you well know, is of paramount importance to all government activities. Our military and space efforts, our foreign aid and assistance programs, our domestic blue prints to preserve the natural beauty of our land, eradicate physical and mental diseases, provide maximum employment for an ever-expanding labor force, eliminate slums and reshape our cities, as well as our efforts to provide medical assistance to our elder citizens, all require for their fruition a sound dollar -- a dollar in which our citizens and people throughout the world have confidence and trust.

In the days and months to come, all of us -- in government, in banking and finance, in industry and commerce -- must share and bear an extra burden of responsibility in maintaining the steady economic growth of the past five years.

Meanwhile, we must keep a tight lid on government expenditures and maintain government revenues high eough not to increase aggregate demand too sharply. Wage increases should stay within the President's guideposts and keep in line with productivity increases. Price rises that swell already high profits should be avoided. Our monetary policies must continue to be based on the dual objectives of maintaining economic strength at home and financial strength abroad.

But a sound economic stabilization policy cannot be all negative. For economic as well as humanitarian reasons, we must better educate our children, improve the physical environment in which we work and live, reduce the toll of sickness and disease, provide job training for the poverty-stricken and retraining for workers displaced by automation. To prevent labor bottlenecks from occurring, we must constantly upgrade our national work force to keep pace with the myraid of technical innovations essential to steadily rising living standards. These objectives demand action by government -- action which cannot be long deferred if the nation is to continue to grow and prosper. They also require enlightened, progressive leadership in every community to insure their success.

Amidst modern, fast moving economic developments, it is never possible to relax. To meet problems of recession and slow growth, we must encourage investment and promote steadily rising aggregate demand. When the economy faces the prospect of growing too fast, we have to guard against overheating. All of this requires a complex of flexible, modern economic policies appropriate to the needs of today's fast moving world. But m o st of all - as I have tried to stress -- our future prosperity is dependent on all the diverse segments of our society -- business, agriculture, labor, and government at all levels --cooperating, understanding, reasoning together -- each contributing to the common purpose of a strong, prosperous, and free America.

Thank you very much!.

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TREASURY DEPARTMENT
Washington

FOR RELEASE P. M. NEWSPAPERS
Thursday, March 31, 1966

REMARKS BY THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE U. S. SAVINGS BOND KICKOFF LUNCHEON
WOLFORD HOTEL, DANVILLE, ILLINOIS
THURSDAY, MARCH 31, 1966
(ABOUT 12:00 NOON)

FEDERAL ECONOMIC POLICIES

I was certainly pleased to be invited to addres the U. S. Savings Bond Kickoff Luncheon here in Danville. Frankly, in meeting with this distinguished audience I expect to receive more insight and information than I impart to you. Moving as you do in the mainstream of the American economy puts you in a position to know the immediate, actual market developments that can so quickly change -- sometimes more quickly than many observers realize.

In fact, I think it ought to be required of government officials to meet as often as possible with groups such as this. I know, of course, your interest in what I have to say is because of my daily contact with policy-making economic decisions in the nation's capitol. No less important, however, is what you have to say -- the infusion into our thinking of your opinions and questions -- your firsthand awareness of what actually is happening in key areas of market demand. Our discussions help to weave together into a seamless fabric both the government policies which affect the economy and the actual market forces themselves.

In discussing with you today the state of the national economy, I should begin by saying that it is good -- very good. We are now in the sixth year of the longest and strongest economic expansion in the entire history of the United States. But this expansion did not come about by accident. It was the result of creative intelligent economic planning that began

under President Kennedy in 1961 and has continued under President Johnson since 1963.

The Employment Act of 1946 recognized that the Federal government must accept a vital share of responsibility for the performance of the American economy. The goals of this act were precise: maximum employment, maximum production, and maximum purchasing power. In vigorously pursuing these objectives both President Kennedy and President Johnson have used fiscal and monetary policy, often in unprecedented, original ways, to accelerate and nurture continuous economic growth and expansion. We advanced from a country accustomed to periodic recessions to a nation capable of sustaining balanced economic growth during peace time. The past five years of unprecedented prosperity underwrite with emphasis this fact.

Our economy has been so healthy and our economic progress so rapid that it is sometimes difficult to appreciate and evaluate the gains we have made and from which all individuals have benefited. President Johnson recently pointed out that:

> In only seven other countries of the world is total output in a year as large as the increase in our output in 1965. Our stock of private plant and equipment, valued in constant prices, increased as much as in 1965 alone as it did in the four years 1957 - 1960. The increase in Federal cash receipts between fiscal years 1961 and 1967 -- in spite of $20 billion of tax cuts -- will exceed the entire cash receipts of the Federal government in any peace time fiscal year prior to 1951.

During the past five years our Gross National Product -- the total value of all the goods and services we produce in a year -- has steadily increased. Since January, 1961, our GNP has grown from an annual rate of $504 billion to $697 billion -- an increase of $194 billion or over 38 percent. Corporate profits have jumped 71 percent, to almost $77 billion. The unemployment rate has shrunk from a 1961 high of over 7 percent to less than 4 percent, and is now the lowest in more than 11 years.

And yet during this long, vigorous economic expansion -- despite steadily rising individual and business incomes -- prices have been remarkably stable. In fact, the United States has enjoyed greater price stability than any other industrialized country in the world -- and by a good margin.

The balance of payments deficit which in 1960 totaled nearly $4 billion, shrank to less than $1-1/2 billion during 1965. Although we have not reduced to an absolute minimum this imbalance, we have by the excellent progress already made strengthened the dollar throughout the world and restored world-wide confidence in its stability.

The Federal budget deficit which in fiscal 1959 was over $12 billion -- the highest peace time level in history -- declined to $3-1/2 billion during the fiscal year ending last June 30th. In fiscal 1967 it is expected to fall below $2 billion. I can tell you from first hand experiences that President Johnson means business when he demands that government agencies exercise strictest economy in all spending programs.

This unprecedented economic success in which we all have shared came about primarily because of the excellent cooperation between the private public sector of our economy and the Federal government. Our record, as President Johnson has emphasized, "is a tribute to all sectors of our economy -- labor, business, and our public policy." We in the Treasury are cognizant and deeply appreciative of the outstanding work industrial leaders and businessmen like yourselves have done. We look forward toward making this creative partnership for prosperity more viable and meaningful in the years ahead.

For we are concerned more with the future than with the present. Can we continue the record smashing advances in output and income that we have made? Can it be done without inflation? Can we slash the incidence of poverty, ignorance and disease? Can we bear our rising defense burdens without jeopardizing essential social, medical, and scientific programs?

These are vital questions, for no matter what pursuits we follow as individuals, we are all inextricably bound together as a people toward achieving common national goals. Failure

to achieve these goals, or to progress toward the realization of our national purposes, will result in failure of our own individual efforts as citizens and human beings in search of individual and family goals. Success in realizing our national puposes, on the other hand, will bear fruits for every American.

If adequate economic growth over the coming year now seems assured, what about the danger of over-heating the economy of inflation? The Gross National Product now exceeds an annual rate of $700 billion. The yearly increase in output required just to keep our productive resources employed at the present level is in the area of $40 billion. This $40 billion represents the added volume of goods the economy is able to produce each year to improve our living standards, our environment, our national defense capability, and the capacity to fulfill our national responsibilities abroad. It is in this context that the increase of Federal expenditures required to meet the problem in Viet Nam, as well as other vital national needs, should be assessed. I believe our economy has the strength, stability and vigor to do the job.

Nevertheless, it is always a mistake to assume that there is no danger of inflation. We are keeping a close watch on developments and, although there certainly has been some upward pressures on prices, we find the American public -- as businessmen, as workers, as consumers -- have on balanced acted with sensible restraint. President Johnson is deeply concerned with this problem. He has been in daily contact with banking and business leaders throughout the country. Only last night he met with a distinguished group of them at the White House. There are many ways to deal with this problem. An increase in taxes is but one. Equally important is voluntary restraint on capital investments, consumer spending, and whole-hearted cooperation on the part of everyone to divert money away from the stream of spending into the stream of saving. We are confident that the good record of restraint already achieved will be continued.

It is in this context that U. S. Savings Bonds will play a vital role in the period which lies ahead. For the purchase of these bonds represent money savings that will

shrink the demand for goods and services. Moreover, savings bond investments are a vital service of non-inflationary financing for the government. The Savings Bond Program thus represents one of our most effective anti-inflationary programs. By their purchase, as President Johnson recently said, "every one of us can contribute to conserving the buying power of our ... dollar."

One outstanding example of business-government cooperation is the existing partnership in behalf of the Savings Bonds Program. The partnership began in 1941 when the payroll method of saving became one of the most successful features of war bond drives. It contributed significantly to the $150 billion worth of savings bonds sold since the program began 25 years ago.

In 1963, Secretary of the Treasury Douglas Dillon called a team of top businessmen to Washington to organize a peace time version of the bond sales effort so successful during the war.

Out of that meeting emerged the U. S. Industrial Payroll Savings Committee. The first chairman was Harold S. Geneen, President of International Telephone and Telegraph Corporation. Later chairmen were Frank R. Milliken, President of Kennecott Cooper Corporation, and Dr. Elmer W. Engstrom, Chief Executive Officer of the Radio Corporation of America. The present chairman is Lynn A. Townsend, President of the Chrysler Corporation. The present goal of Mr. Townsend and his U. S. Industrial Payroll Savings Committee is 1,200,000 new payroll savers in 1966. Although many of the corporate campaigns are just getting underway, indications are that substantial results will be achieved. The new and higher interest rate of 4.15 percent will help give an impetus to the combined efforts of business and industrial leaders working with Mr. Townsend's Payroll Savings Committee.

Treasury Secretary Fowler has emphasized on numerous occasions that one of the most direct means by which businessmen, bankers and industrialists can bolster our nation's financial position is through promoting the widest possible ownership of savings bonds. The Industrial Payroll Savings Committee is an excellent way to accomplish this objective.

In the days and months to come, all of us -- in government, in banking and finance, in industry and commerce -- must share and bear an extra burden of responsibility in maintaining the steady economic growth of the past five years.

Meanwhile, we must keep a tight lid on government expenditures and maintain government revenues high enough not to increase aggregate demand too sharply. Wage increases should stay within the President's guideposts and keep in line with productivity increases. Price rises that swell already high profits should be avoided. Our monetary policies must continue to be based on the dual objectives of maintaining economic strength at home and financial strength abroad.

But a sound economic stabilization policy cannot be all negative. For economic as well as humanitarian reasons, we must better educate our children, improve the physical environment in which we work and live, reduce the toll of sickness and disease, provide job training for the poverty-stricken and retraining for workers displaced by automation. To prevent labor bottlenecks from occurring, we must constantly upgrade our national work force to keep pace with the myriad of technical innovations essential to steadily rising living standards. These objectives demand action by government -- action which cannot be long deferred if the nation's to continue to grow and prosper. They also require enlightened, progressive leadership in every community to insure their success.

Amidst modern, fast moving economic developments, it is never possible to relax. To meet problems of recession and slow growth, we must encourage investment and promote steadily rising aggregate demand. When the economy faces the prospect of growing too fast, we have to guard against overheating. All of this requires a complex of flexible, modern economic policies appropriate to the needs of today's fast moving world. But most of all -- as I have tried to stress -- our future prosperity is dependent on all the diverse segments of our society -- business, agriculture, labor, and government at all levels -- cooperating, understanding, reasoning together -- each contributing to the common purpose of a strong, prosperous, and free America.

Thank you very much.

STATEMENT OF PETER D. STERNLIGHT
DEPUTY UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE
10:00 A.M., WEDNESDAY, MARCH 30,1966

Mr. Chairman, I appreciate this opportunity to appear before your Committee and cooperate in any way that I can in your consideration of the marketing of certain debentures by the Small Business Administration.

In my position at the Treasury I must keep in close touch with developments in various financial markets. This is essential in participating in the planning of the Treasury's own debt management operations. My job also involves frequent consultation with other Federal agencies that market debt offerings from time to time.

This checking and coordination with other agencies is done partly for the purpose of providing Treasury advice as to appropriate interest rates and other terms to be offered, and partly to provide Treasury guidance regarding the timing of different offerings. There is an effort to coordinate different agency offerings with one another, and to coordinate the broad area of agency offerings with the Treasury's own debt management operations.

As for the particular debentures which the SBA has recently offered for sale, I had several conversations about this with Mr. Richard Kelley of SBA, dating back to last January. At that time he acquainted me with general specifications of the debentures

proposed for sale, and those terms were reviewed by our technical staff at Treasury. For the section 302 debentures, SBA suggested, around mid-January, a yield to investors of 5-1/4%, and this seemed appropriate to us, although it must be said that in the case of new offerings entering the market for the first time there is bound to be considerable uncertainty as to what is the "right" rate of return. The 5-1/4% yield on SBA debentures in mid-January compared with a yield on 10-year Treasury issues of about 4.60%, and on new high-grade long-term corporate bonds of about 4.90%.

Even with this yield advantage, the 5-1/4% return on SBA debentures apparently did not prove attractive. The debentures had a Government agency guaranty, but the market is sometimes rather fickle in its evaluations, and SBA's endorsement did not carry as much weight as do the guarantees of Treasury, or even of some other Federal agencies. In addition the SBA debentures are callable at any time, and however likely this event may be it is another element of uncertainty for the investor. A further limitation on the debentures is their lack of ready marketability. There is no group of primary dealers ready to make markets at narrow price spreads, as we have in the case of Treasury issues, and to a varying degree in a number of Federal agency issues. In this respect the SBA debentures are more like a private placement of a corporation with an institutional investor. Any secondary sale would be a

negotiated deal between buyer and seller, in which the seller might have difficulty in locating a ready market.

A month after this initial discussion of an appropriate rate, with no progress having been made on the SBA's section 302 debentures and the SBA still very much in need of funds to continue their operations, the Treasury was again asked to review a rate on these debentures. This was mid-February. The bond market had meanwhile moved substantially higher in rate as it looked ahead to heavy credit demands and a more restrictive monetary policy. Yields on 10-year Treasury issues had risen some 30 basis points (3/10 of 1%) to about 4.90%. Reoffering rates on high grade corporates were up about 20 basis points to 5.10%. We agreed with SBA that it would be appropriate to offer a 5-1/2% rate on their section 302 debentures. The Export-Import Bank was also making a 5-1/2 % offering at this time, and while their offering met with no great enthusiasm they did succeed in placing some $360 million of their paper.

For the SBA debentures, the 5-1/2% rate did not prove successful. The sharp upsweep of market rates had been such that even this high level held little appeal for a security carrying the features mentioned earlier.

Further discussions were held with SBA in early March. By this point, market rates, for example, on 10-year Treasury bonds and high

grade corporate issues had risen another 10 to 15 basis points from mid-February. There were some signs that the markets might be stabilizing, but there had been disappointments on this score before and there could be no real confidence that a real change of atmosphere was coming. The market was rife with talk of a possible prime rate increase -- which in fact came to pass on March 10, and there was some apprehension as to how the money market would weather liquidity pressures around forthcoming tax and dividend dates.

Had the same relationship been sought between an SBA debenture rate and other market interest rates in early March, there might have been an attempt to market the 302 debentures to yield about 5-5/8%, but there is no reason to believe that this differential would have succeeded any better in early March than in mid-January or mid-February. We therefore agreed to the SBA suggestion that a 5-3/4% rate be employed -- recognizing that it was high, but also recognizing that an incentive of this kind was needed to get the job done. A good volume of the debentures was placed at this rate, but it still required a selling job, and the rate of progress suggested that the yield, while attractive, was not excessively generous under the circumstances.

Over the past ten days, a better market atmosphere has developed, and I understand that the opportunity has been taken

to discontinue offering the 5-3/4% rate and make subsequent offerings at a slightly lower rate. This certainly seems appropriate in the case of an offering on which the books stay open as long as they do for these debenture placements.

One clear lesson from this experience with the placement of section 302 debentures is that we should consider other techniques in addition to this one for drawing private funds into the Federal credit programs. A good technique, I believe, is the sale of participations in pools of assets, which has been employed successfully by FNMA on behalf of its own and VA's mortgage portfolios. Such sales of participations for SBA are authorized by a bill recently passed by the Senate -- S. 2499 -- and now before this Committee.