Treas.
HJ
10
.A13P4
v.155

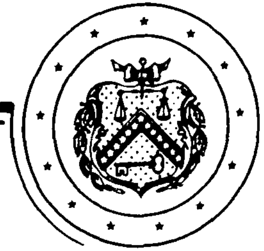
U.S. Treasury Dept.

Press Releases

LIBRARY
ROOM 5025
MAR 1 . 1967
TREASURY DEPARTMENT

LIBRARY
ROOM 5030
JUN 1 5 1972
TREASURY DEPARTMENT

TREASURY DEPARTMENT



WASHINGTON, D.C.
August 1, 1966

FOR RELEASE: MORNING NEWSPAPERS
TUESDAY, AUGUST 2, 1966

S U M M A R Y

TAX GUIDELINES COVERING INCOME ALLOCATIONS BETWEEN RELATED CORPORATIONS PROPOSED BY TREASURY

The Treasury Department today announced proposed tax guidelines covering a wide range of business transactions between related corporations. The new standards would affect any company which has subsidiaries, including affiliates in foreign countries.

The new standards or guides are proposed Internal Revenue Service regulations. A public hearing will be held on the regulations later this year.

The regulations are designed to give business firms, including those exporting to foreign subsidiaries, guidance on how transactions with affiliates may be carried out with reasonable assurance that increased tax liabilities will not result from audits of these transactions by IRS.

The Treasury's announcement:

-- Makes it clear that the Internal Revenue Service is following a policy of allocating income between related corporations, for tax purposes, only in "significant" cases, not in instances where "minimal" amounts are involved.

-- States that the guidance provided by the proposed regulations is expected to minimize uncertainties about the tax consequences of transactions between related companies -- thus faciliating such transactions, including export sales by American companies through their foreign affiliates.

-- Explains that the United States, through tax treaties with other governments, is making it possible for the appropriate tax officials in each country to agree in particular cases on the proper allocation of income between related companies.

oOo

The attachments to this summary include --

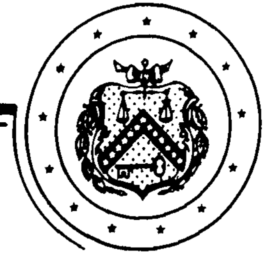
1. A more technical and complete announcement of the actions being taken, and policies being stated.

2. An outline of the proposed regulations, to be published in full in the Federal Register on Tuesday, August 2, 1966.

In addition, copies of related IRS announcements are being issued by the Internal Revenue Service.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.
August 1, 1966

FOR RELEASE MORNING NEWSPAPERS
TUESDAY, AUGUST 2, 1966

TREASURY DEPARTMENT ANNOUNCES PROPOSED SECTION 482 REGULATIONS

The Treasury Department today announced the issuance of proposed regulations affecting the taxation of American firms with subsidiaries, including companies with foreign affiliates.

The proposed standards, to be published in the Federal Register on Tuesday, August 2, 1966, advise taxpayers of the policies to be applied by the Internal Revenue Service in Section 482 cases. Section 482 of the tax law gives the Commissioner of Internal Revenue authority to adjust or allocate the incomes of various members of a group of firms under common control, in order to reflect accurately the true income of the members or to prevent tax avoidance. While in recent years Section 482 has been most frequently applied to transactions between U. S. companies and their foreign affiliates, the section and the regulations now being issued are equally applicable to transactions between two related domestic taxpayers.

The regulations are designed to give U. S. taxpayers, including those engaged in exporting to foreign subsidiaries, guidance as to the manner in which they may carry out transactions with their affiliates with reasonable confidence that audit of these transactions by the Internal Revenue Service will not result in increased tax liabilities under Section 482. To accomplish this, the regulations set out specific rules and standards which taxpayers may follow to avoid allocations on audit. The regulations also will facilitate the audit procedures of the Service and thereby result in quicker disposition of those cases that do arise under Section 482.

F-559a

It is not the policy of the Service to make minimal allocations under Section 482. Rather, adjustments will be proposed only in those cases where there have been significant deviations from so-called arm's length dealings -- that is, dealings that would take place between unrelated companies -- or where there has been significant shifting of income. This attitude toward the administration of Section 482 and the guidance provided by the proposed regulations for both taxpayers and revenue agents are expected to minimize uncertainty as to the application of Section 482 and thereby facilitate intercompany transactions, including exports by U. S. firms to their affiliates. For example, the proposed regulations make clear that a U. S. company exporting goods to a foreign subsidiary may determine its intercompany selling price with reference to the competitive condition faced by that subsidiary.

Issuance of regulatory guidelines under Section 482 was one of the administrative measures recommended in a recent report to the Department of Commerce of the National Export Expansion Council's Action Committee on Taxation. This Committee suggested that issuance of clarifying regulations would "remove some of the disincentives affecting export trade."

The proposed regulations set forth standards for the application of Section 482 to cases involving the pricing of tangible property sold by one member of the group to another member, and cases in which intangible property, such as patents, copyrights, and trademarks, are made available by one member of a group of companies to another member.

The regulations also reflect certain modifications of earlier proposed regulations under Section 482 which were issued on March 31, 1965. The earlier regulations covered cases in which money or services or tangible property are made available between members of a group, and also contained rules generally applicable to all cases under Section 482.

Neither the newly-proposed regulations nor the revisions of the proposed regulations issued on March 31, 1965 are final. The Internal Revenue Service will schedule public hearings on the proposed regulations later this year, following the 60-day period specified in the proposed regulations for the submission of views by interested parties.

The Treasury Department also will make the proposed regulations available to the working party of the Fiscal Committee of the Organization for Economic Cooperation and Development (OECD), which is studying the international implications of allocations made by tax authorities of the various countries under provisions comparable to Section 482. This study is designed to develop internationally accepted rules governing allocations between affiliates in different countries so that the same transaction is not subject to excessive taxation because of conflicting rules in those countries.

At the same time, the Treasury is continuing its efforts to reach agreement with other countries on tax treaties providing that the "competent authorities" of each country may agree in particular cases as to the proper allocation of profits between related companies. These agreements will be implemented by the imposition of tax in one country and a corresponding credit or refund in the other. The recently ratified tax treaties with West Germany and the Netherlands contain a provision of this type, as does the existing tax treaty with Belgium. The revised treaty with the United Kingdom recently approved by the Senate, also contains similar provisions, and a like provision is being proposed in connection with the revision of the treaty with France. In this connection, the IRS will study the "competent authority" procedures under U. S. tax treaties to determine whether those procedures are fulfilling their objective of eliminating double taxation.

In addition to proposed regulations under Section 482, proposed regulations under Section 861 of the Code are to be published as part of the same notice in the Federal Register. The Section 861 regulations contain standards to be applied in propoerly apportioning deductions between income from U. S. and non-U. S. sources. A review of the present rules for apportioning deductions under this section was prompted by publication of the first part of the proposed regulations under Section 482 in March 1965. A description of the proposed regulations under Sections 482 and 861 is attached.

The Internal Revenue Service also plans other actions related to Section 482. It will:

1. Publish announcements changing two Revenue procedures (Rev. Proc. 64-54 and Rev. Proc. 65-17). One of these procedures (Rev. Proc. 64-54), originally announced by the IRS in late 1964, provided that the Revenue Service would not pursue certain types of Section 482 allocations for taxable years beginning prior to January 1, 1963, and that, in cases where allocations were made, foreign taxes paid could be offset against the U. S. tax attributable to the Section 482 allocation. The announcement will extend the period to which this Revenue Procedure will apply to taxable years beginning prior to January 1, 1965. The other Revenue Procedure (Rev. Proc. 65-17) provides that, in certain circumstances, a taxpayer whose income has been increased as a result of a Section 482 allocation may receive from its affiliate an amount equal to that allocation tax-free. Rev. Proc. 65-17 now applies for all taxable years, but for years beginning after December 31, 1962, it is subject to different conditions. The effective date of these conditions is now postponed to taxable years beginning after December 31, 1964. The Internal Revenue Service also will announce that it contemplates applying the regulations issued under Section 482 to prior taxable years except in those cases covered by Rev. Proc. 64-54.

2. Publish notices clarifying the position of the Service in certain court cases in which acquiescences were previously announced.

PROPOSED REGULATIONS

The Commissioner of Internal Revenue has, through the powers granted him under Section 482, authority to adjust incomes within groups of commonly controlled corporations or other entities to reflect accurately the true incomes of the members of the group or to prevent tax avoidance. For example, he may make allocations to reflect adequate reimbursement for services rendered by one member of a group of corporations to another member of the group where the services are for the benefit of the latter member. He also has the authority to adjust the prices charged for goods sold by one member to another where the prices charged are not a fair reflection of the proper price, or to require a proper charge where money or property of one member is made available to another.

Section 482 applies to any group of corporations under common control, including groups in which one or more foreign corporations are members. The proposed regulations set forth the standards to be applied by the Internal Revenue Service in making allocations in cases involving the sale of tangible property by one member to another, and in cases in which intangible property is made available by one member to another. The proposed regulations also contain changes in the proposed regulations under Section 482 published on March 31, 1965. The changes made in this portion of the proposed regulations are mainly the result of comments received from taxpayers in the period since their publication. These earlier regulations contain certain general rules, as well as more specific standards, applicable to cases in which intercompany loans or advances, services, or the use of tangible property are involved.

The standards set forth in the proposed regulations include:

1. Sale of Goods: In determining arm's length price of the seller for the sale of goods in transactions between members of the same group, the proposed regulations describe in detail three methods which may be used in determining that price. If sales of the product involved in the intercompany transaction have taken place between unrelated

parties under comparable circumstances, the price charged in the unrelated sale applies. If no such sales have occurred, the regulations require that under certain conditions the arm's length price of the seller must be determined by making certain calculations based on the sale price of the property outside the group. Under this method, the arm's length price is ascertained by subtracting from the resale price outside the group an appropriate profit margin for the member reselling the goods. Typically, this method would be most appropriate where a manufacturer sells merchandise to a related distributor which, without further processing, resells the merchandise to unrelated parties. The third method described in the proposed regulations involves determination of the arm's length price of the seller by adding an appropriate profit margin to the cost of producing the property. The regulations also permit the use of any other method of determining an intercompany price if the taxpayer can establish that the method has been consistently used by the taxpayer and is clearly more appropriate. Moreover, the regulations permit the taxpayer in appropriate cases to take into account the competitive position of its affiliate in establishing an intercompany price.

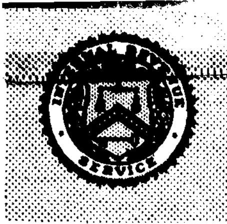
2. Intangibles: The proposed regulations require that an arm's length royalty or other charge be paid if one member of a related group allows another member of the group to use intangible property (such as a patent, trademark or copyright) belonging to the first member. The regulations describe the factors to be taken into account in determining a

proper charge for the use of such property. Normally no charge is to be made until the property is made available by the member of the group which developed it. As an alternative to requiring a royalty or other charge, the regulations permit the establishment of a bona fide cost sharing arrangement under which two or more members of a group may share the costs and risks of developing intangible property in return for an interest in any intangible property that may be produced under the arrangement. Such an arrangement may apply to a single research project or to all research and development activities of the group. If such an arrangement exists, no charge will be made for the use of the property developed under the arrangement by a member participating in the arrangement.

Because these regulations affect different types of cases, they are of necessity rather detailed. Therefore, the general statements above are subject to a number of conditions and exceptions.

The proposed regulations under Section 861 set forth standards to be applied in apportioning deductions between income from U. S. sources and income from non-U. S. sources. These rules are of particular importance for purposes of computing the foreign tax credit. The proposed regulations make clear that where an item of gross income (such as a management fee) results from the rendition of services to another member of the group, the costs or deductions associated with such services will be allocated to the fee and not to any other income received by the member rendering the services. The proposed regulations also contain rules for allocating deductions where they are related to two or more items of income.

oOo



U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
PUBLIC INFORMATION DIVISION
WORTH 4-4021

TECHNICAL INFORMATION RELEASE

TIR-836

FOR RELEASE
Tuesday, August 2, 1966

The U. S. Internal Revenue Service today announced that the following Revenue Procedure will appear in Internal Revenue Bulletin 1966-34, dated August 22, 1966.

Rev. Proc. 66-33

Policy and procedure governing the application of section 482 of the Internal Revenue Code of 1954.

Revenue Procedure 64-54, C.B. 1964-2, 1008, amended.

SECTION 1. SCOPE.

This Revenue Procedure extends certain provisions of Revenue Procedure 64-54, C.B. 1964-2, 1008 to apply to taxable years beginning prior to January 1, 1965, and announces the effective date of the proposed regulations under section 482 of the Internal Revenue Code of 1954.

SEC. 2. REVENUE PROCEDURE 64-54.

.01 Revenue Procedure 64-54 prescribes the Service's policy and procedure for the treatment of United States controlling taxpayers subject to "economic double taxation" or other undue hardship for taxable years beginning prior to January 1, 1963, arising from the application of section 482 of the Internal Revenue Code of 1954 (section 45 of Internal Revenue Code of 1939) to the United States controlling taxpayers and one or more of their controlled foreign entities.

.02 It has been ascertained that the circumstances causing the hardships which Revenue Procedure 64-54 was designed to mitigate continued beyond January 1, 1963. Accordingly, all of the provisions of Revenue Procedure 64-54, with the exception of section 4.02 thereof, are extended to cover taxable years of United States controlling taxpayers beginning prior to January 1, 1965. Section 4.02 applies only to the cases of United States controlling taxpayers for taxable years beginning prior to January 1, 1963.

SEC. 3. EFFECTIVE DATE OF PROPOSED SECTION 482 REGULATIONS.

It is contemplated that when proposed regulations sections 1.482-1(d) and 1.482-2 are finally adopted, they will apply to all taxable years covered by the Internal Revenue Code of 1954, except as provided otherwise in section 1.482-2(d)(4)(ii)(a). However, the Internal Revenue Service will not pursue section 482 allocations where section 4.01 of Revenue Procedure 64-54, as amended, and as clarified by Revenue Ruling 65-109, C.B. 1965-1, 222, so provides.

# # #

U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
PUBLIC INFORMATION DIVISION
WORTH 4-4021

TECHNICAL INFORMATION RELEASE

TIR-837

FOR RELEASE
Tuesday, August 2, 1966

The U. S. Internal Revenue Service today announced that the following amendment to Revenue Procedure 65-17, C.B. 1965-1, 833, will appear in Internal Revenue Bulletin 1966-34, dated August 22, 1966.

Rev. Proc. 65-17
Amendment I.

Technical position and procedure governing the adjustment of accounts and the transfer of amounts as the result of allocations of income or deductions made pursuant to section 482 of the Internal Revenue Code of 1954 (section 45 of the Internal Revenue Code of 1939).

SECTION 1. SCOPE.

This amendment to Revenue Procedure 65-17, C.B. 1965-1, 833, extends certain of its provisions to apply to taxable years beginning prior to January 1, 1965.

SEC. 2. BACKGROUND.

.01 Revenue Procedure 65-17, among other things, permits a qualifying United States taxpayer, whose taxable income has been increased by reason of allocation under section 482 of the Internal Revenue Code of 1954 and who complies with the requirements of the Revenue Procedure, to receive payment from the related entity from, or to, which the allocation of income, or deductions, was made, of an amount determined in accordance with the Revenue Procedure, without having the receipt of such amount considered as a taxable distribution for Federal income tax purposes. Section 3 of Revenue Procedure 65-17, provides, in part, that a United States taxpayer shall qualify for the treatment provided in the Revenue Procedure, if, for a taxable year beginning prior to January 1, 1963, the taxable income of such taxpayer is increased by the Internal Revenue Service under section 482 of the Code and no part of any underpayment of tax by such taxpayer for the taxable year involved in the allocation is due to fraud. Section 4.03 of the Revenue Procedure provides, in part, that the account receivable, which is established to adjust accounts between the entities involved in the section 482 allocation, shall bear interest from the day after the date the account is deemed to have been created or from the first day of the taxpayer's first taxable year beginning after December 31, 1962, whichever is later, to the date of payment.

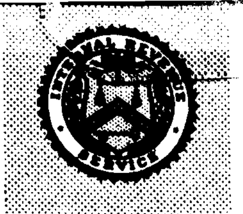
(More)

SEC. 3. EXTENSION OF REVENUE PROCEDURE 65-17.

.01 It has been ascertained that the circumstances which warranted the application of the policy of Revenue Procedure 65-17 to United States taxpayers whose cases did not involve fraud have continued beyond January 1, 1963.

.02 Accordingly, the date, "January 1, 1963," appearing in Section 3.01 of the Revenue Procedure is amended to read, "January 1, 1965." The date, "December 31, 1962," which appears in Sections 3.02 and 5.011(b) is amended to read, "December 31, 1964." The date, "December 31, 1962," appearing in Section 4.03 (relating to interest on accounts receivable) of the Revenue Procedure is amended to read, "December 31, 1964."

# # #



U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
PUBLIC INFORMATION DIVISION
Washington, D. C. 20224
Area Code 202 WOrth 4-4021

TECHNICAL INFORMATION RELEASE

TIR-838

FOR RELEASE
Tuesday, August 2, 1966

The Internal Revenue Service today explained its acquiescence in the decision of the Tax Court in Smith-Bridgman & Co., 16 T.C. 287 (1951) (Acq. C.B. 1951-1, 3), and also announced its position on the Sixth Circuit's opinion in Tennessee-Arkansas Gravel Co., v. Commissioner of Internal Revenue, 112 F. 2d 508 (1940). The Revenue Service stated that its announcement has been prompted by certain interpretations which have been made of these cases.

The cases deal with section 482 of the Internal Revenue Code, which gives the Revenue Service authority to allocate income and deductions among the members of a group of business entities owned or controlled by the same interests so that the true income of each member of the group is clearly reflected.

In Smith-Bridgman & Co., the taxpayer made interest-free loans to its parent company. The funds were used to retire outstanding debenture bonds redeemable at a premium plus accrued interest. Under the authority of section 45 of the 1939 Code (predecessor of section 482 of the 1954 Code) the Revenue Service determined that income representing interest of 4 percent on these loans should be allocated from the parent to the subsidiary in order to clearly reflect income.

In the Tennessee-Arkansas Gravel Co. case, the taxpayer leased equipment to a commonly controlled corporation during 1933 for $1,000 a month. Although the lease agreement covered only the year 1933, the lessee continued to use the equipment during 1934 without paying rent. Under the authority of section 45 of the 1939 Code the Revenue Service determined that $12,000 should be allocated to Tennessee-Arkansas Gravel Co. from the commonly controlled company as the fair rental value of the equipment for 1934.

In both cases the courts pointed out that no corresponding adjustments were made to the income or deductions of the related corporations from which the allocations were made. The courts concluded that by increasing the taxpayer's income in each case the Revenue Service had not distributed, apportioned, or allocated gross income, but had improperly created or distributed income where none in fact existed.

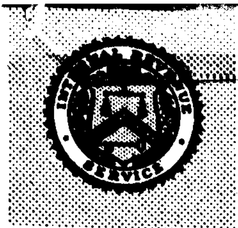
-More-

The Smith-Bridgman & Co. and Tennessee-Arkansas Gravel Co. cases have been cited by some as authority for the proposition that income may not be attributed under section 482 to a member of a controlled group involved in a transaction with another member, if the latter had no gross income or if no income was realized outside the group as a result of the particular non-arm's length transaction.

The Revenue Service stated that its acquiescence in Smith-Bridgman & Co. was intended only to concur in the proposition that appropriate adjustments are to be made to the incomes of both members of the group affected to reflect the section 482 allocation. The Revenue Service emphasized that its acquiescence was not intended to override its position as to the scope and purpose of section 482 set forth in existing regulations. Similarly, the Revenue Service stated it concurs in the result reached by Tennessee-Arkansas Gravel Co. only to the extent the holding is based on its failure to have made an appropriate adjustment to the income or deductions of the member of the group from which the allocation was made.

The Revenue Service stated that proposed regulations published in the Federal Register for August 2, 1966, are designed to clarify further the meaning of section 482 and to provide more specific rules for its application. Proposed sections 1.482-1 (d) (2) and (4) and proposed sections 1.482-2 (a) and (c) relate to methods of allocation in general, and specific allocations in the case of loans between related business entities and use of tangible property by related business entities.

# # #



U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
PUBLIC INFORMATION DIVISION
Washington, D. C. 20224
Area Code 202 WOrth 4-4021

TECHNICAL INFORMATION RELEASE

TIR-839

FOR RELEASE

Tuesday, August 2, 1966

The Internal Revenue Service today stated its position on certain issues decided by the Tax Court in the case of Columbian Rope Company, 42 T.C. 800 (1964).

The Revenue Service had previously published acquiescence (C.B. 1965-1, 4) on all issues in the case except one involving allocation of income from a Panamanian corporation to the taxpayer, a domestic corporation.

On this issue the Tax Court held that dollars resulting from sales made by taxpayer's Philippine subsidiary, but diverted to the taxpayer's Panamanian subsidiary because of Philippine currency restrictions, need not be included in taxpayer's taxable income. The Court indicated that because the Philippine subsidiary had valid needs to accumulate U.S. currency outside the Philippines, none of the amounts accumulated by the Panamanian subsidiary should be included in taxpayer's income.

The Revenue Service said that, although it agrees the Philippine subsidiary had valid reasons for accumulating some amount of U.S. currency outside the Philippines, it is of the opinion that the amount accumulated by the Panamanian subsidiary was greatly in excess of the amount needed to transact its business.

The Revenue Service said it does not consider the Columbian Rope case to be a precedent for the proposition that amounts in excess of reasonable compensation for services may be diverted from one subsidiary corporation to another subsidiary corporation without being treated as constructive dividend income to the parent corporation.

Another issue in the case was whether compensation paid by the parent corporation to its officers and directors could be partially disallowed under section 162 of the Code to the extent the payments were attributable to the officers' supervision of the operations of the corporation's Philippine subsidiary.

Although one of the officers of the parent corporation was also president of the Philippine subsidiary, the Court found on the basis of the record, that the Philippine subsidiary was adequately staffed with personnel who lived and worked in the Philippines, and that the time devoted by the parent corporation's top executives to the Philippine subsidiary was in the nature of general supervision of the subsidiary "which would be an ordinary and necessary part of their duties in conducting and managing petitioner's business." The Court concluded

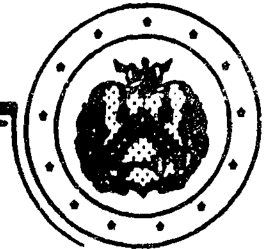
-More-

that the compensation paid by the parent to its executives was reasonable in amount and deductible in full under section 162.

The Revenue Service explained that its acquiescence on this issue was based on the particular facts in the case. The Revenue Service interprets the Court's findings to mean that the president of the Philippine subsidiary performed no executive services for the benefit of the subsidiary, and that the services of the executive officers of the parent were in connection with the parent's significant investment in the subsidiary.

# # #

TREASURY DEPARTMENT



WASHINGTON, D.C.

'OR RELEASE 6:30 P.M.,
onday, August 1, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated May 5, 1966, and the ther series to be dated August 4, 1966, which were offered on July 27, 1966, were pened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, r thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day ills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing November 3, 1966		:	182-day Treasury bills maturing February 2, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.782 a/	4.818%	:	97.494 b/	4.957%
Low	98.775	4.846%	:	97.482	4.981%
Average	98.778	4.834% 1/	:	97.488	4.969% 1/

a/ Excepting 1 tender of $150,000; b/ Excepting 1 tender of $300,000
46% of the amount of 91-day bills bid for at the low price was accepted
59% of the amount of 182-day bills bid for at the low price was accepted

'TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 22,261,000	$ 12,207,000	:	$ 6,069,000	$ 6,069,000
New York	1,587,101,000	819,821,000	:	1,484,707,000	725,404,000
Philadelphia	32,934,000	15,193,000	:	13,566,000	5,025,000
Cleveland	32,542,000	24,582,000	:	37,425,000	36,675,000
Richmond	10,836,000	10,836,000	:	5,717,000	3,617,000
Atlanta	58,040,000	18,583,000	:	41,029,000	12,139,000
Chicago	301,247,000	239,301,000	:	263,476,000	81,709,000
St. Louis	68,914,000	49,774,000	:	38,634,000	35,830,000
Minneapolis	18,008,000	10,968,000	:	10,853,000	5,443,000
Kansas City	27,708,000	24,853,000	:	22,649,000	11,664,000
Dallas	25,187,000	15,187,000	:	12,920,000	7,818,000
San Francisco	118,661,000	58,798,000	:	118,466,000	69,260,000
TOTALS	$2,303,439,000	$1,300,103,000 c/		$2,055,511,000	$1,000,653,000 d/

Includes $247,966,000 noncompetitive tenders accepted at the average price of 98.778
Includes $114,587,000 noncompetitive tenders accepted at the average price of 97.488
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.96% for the 91-day bills, and 5.17% for the 182-day bills.

-560

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT A NEWS CONFERENCE ON THE HAGUE MEETING
OF THE GROUP OF TEN COUNTRIES
MONDAY, AUGUST 1, 1966, AT 4:00 P.M.
ROOM 4121, MAIN TREASURY

At the meeting of the Ministers and Governors of the so-called Group of Ten countries last Monday and Tuesday at The Hague, the world reaped the benefits of a year of hard and fruitful work looking to the modernization and improvement of our international monetary system.

The Ministers and Governors received and considered a Report by their Deputies on the negotiations initiated pursuant to their mandate of last September. The full text of that Report will be made available to the public around the last of August.

But already the Report has served a most constructive purpose. The Report, in the opinion of the Ministers and Governors with one exception, provides the basis for agreement on the deliberate creation of reserve assets sufficient to justify proceeding from the first phase of negotiations to a broader consideration of the questions that affect the world economy as a whole.

Accordingly, the procedure for this second phase was authorized by the Ministers and Governors. After consulting with the Managing Director of the International Monetary Fund, they recommended a series of joint meetings in which the Deputies would take part together with the 20 executive directors of the Fund, representing all 103 member nations of the International Monetary Fund. We have provided for you here copies of the Communique containing these recommendations.

Out of those meetings, which will be the subject of a report by mid-1967, the United States hopes and believes there will emerge a specific contingency plan for the deliberate creation of reserves which can become the subject of formal intergovernmental agreements.

The Ministers and Governors also considered another Report on the "Balance of Payments Adjustment Process" prepared by Working Party Three of the Organization for Economic Cooperation and Development. This Report is a valuable survey of the measures and instruments by which countries, individually and collectively, and in ways compatible with the pursuit of their essential internal objectives, could preserve a better balance of payments equilibrium and achieve a faster and more effective adjustment of imbalance.

Recalling events of the past year, I am more than ever glad that President Johnson authorized me last summer to suggest consultation with our friends abroad on what steps we might jointly take to secure substantial improvements in existing international monetary arrangements.

- - - - - - - - - - - -

Perhaps, it will be useful to review briefly the background of the significant development that The Hague meeting represents.

There is no longer any question whether new means to create monetary reserves are needed. The main question is when the need will become pressing.

As you know, the newly mined gold that goes into official reserves and the deficits in the balance of payments of the United States are the only major sources of additional liquidity that have served over recent years to irrigate the growth of trade and economic development in the world.

Our balance of payments deficit was cut in half in 1965. This year we are holding our own, despite the special and short term foreign exchange costs to us of our defense of freedom in Vietnam. New supplies of gold reaching official quarters have furnished no more than one-quarter of the reserve growth of the world in the last fifteen years.

Consequently, unless some supplement or supplements to gold and dollars can be found that the nations agree to accept and hold as part of our national official reserves, deficiencies in reserves will result that will be felt over time around the world. The reserves will not remain adequate to meet the needs of the rapidly expanding volume of trade and development and will therefore constrict the remarkable growth that has marked the free world since the war.

I said when I suggested this course of action last year that the United States was not wedded to any particular procedure or timetable. But I emphasized that the United States considers agreement on means to strengthen and improve existing international monetary arrangements to be a matter calling for all of us to move ahead to make basic plans but without delay. The term "contingency planning" has become attached in monetary circles to the establishment of plans as to what would be done to create reserves when the existing sources of additional reserves dry up and are insufficient for the needs of the world. At the meeting of the International Monetary Fund last September, the Ministers of the Group of Ten gave their Deputies a dual assignment, to be approached in two stages of work.

The first was to report to the Ministers by the Spring of this year on what basis of agreement could be reached among the Group of Ten countries on improvements in the international monetary system. This was to include a Report on what scope of agreement was reached on basic points concerning the creation of new international reserves.

Our charge to the Deputies last September stated that as soon as a basis for agreement on essential points had been reached, it would be necessary to proceed from this first phase to a broader consideration of the questions that affect the world economy as a whole. We have now decided to proceed.

Paragraph 5 of the Communique issued last Tuesday at The Hague stated:

> "As to the way in which such a future contingency could be met, the Deputies in their Report to the ministerial group have achieved a consensus on a number of basic principles and elements of any such contingency planning, although they have not reached agreement on all points or presented a fully developed plan."

And then paragraph 7 reads as follows:

> "The Ministers and Governors instructed their Deputies to continue their studies on a number of unresolved problems. However, they also thought it appropriate to look now for a wider framework in which to consider the questions that affect the world economy as a whole. With this in view the Ministers and Governors, after consulting with the Managing Director of International Monetary Fund recommended a series of joint meetings in which the Deputies could take part, together with the executive directors of the Fund. The Ministers and Governors of the Group of Ten would expect a Report from their Deputies not later than the middle of 1967. One delegation did not join in making the aforementioned recommendation."

The executive directors of the International Monetary Fund represent the entire 103 members of the International Monetary Fund. So in bringing together the Deputies to the Group of Ten and the executive directors of the International Monetary Fund, you will have in these joint meetings those who are authorized to speak on these subjects for all of the member countries, as well as the major countries who would be expected, of course, to provide the substantial proportion of the financial backing for any new reserve assets.

This is the so-called second phase of the work. And the second phase should be designed to deal with the unresolved questions of procedure in the Group of Ten and to assure that the basic interests of all member countries in the International Monetary Fund in new arrangements for the future of the world monetary system will be adequately considered and represented before significant intergovernmental agreements for formal structural improvements of the monetary system are concluded.

The Ministers and Governors of the Group of Ten, with the exception on one country, have now decided that we have the basis for moving onward to this second stage of our work. I think this will permit us to advance in the coming year to specific agreement upon ways and means of assuring that future reserve needs of the world, both within and beyond the Group of Ten countries, will be provided for adequately.

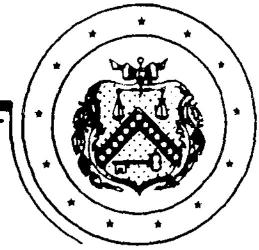
I would like to acknowledge the important contribution of the Congressional Subcommittee on International Exchange and Payments of the Joint Economic Committee, chaired by Congressman Henry Reuss. He, Senator Paul Douglas, Congressman William Widnall and Congressman Robert F. Ellsworth and other members of the Subcommittee have provided invaluable understanding and emphasis looking to constructive solutions. The Subcommittee's Report on "Guidelines For Improving the International Monetary System" is living up to its title.

Throughout the year we have also been assisted by the consultation and advice of the Advisory Committee on International Monetary Arrangements under the leadership of former Secretary of the Treasury Douglas Dillon. This Committee, composed of outside financial and economic experts and an interdepartmental group in the executive branch, have met regularly with Treasury officials.

The Deputies for the United States in the negotiations of the Group of Ten were Under Secretary of the Treasury for Monetary Affairs Frederick Deming and Governor Dewey Daane of the Federal Reserve Board. They were assisted by George Willis, Deputy to the Assistant Secretary of the Treasury for International Monetary Affairs, Robert Solomon, Adviser to the Federal Reserve Board, and Donald McGrew, Treasury Representative in Paris.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 2, 1966

FOR IMMEDIATE RELEASE

WINTHROP KNOWLTON SWORN IN AS
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS

Secretary of Treasury Henry H. Fowler today administered the oath of office to Winthrop Knowlton as Assistant Secretary of the Treasury for International Affairs.

Mr. Knowlton, 35, and a native of New York City, joined the Treasury Department in June 1965 as Deputy Assistant Secretary for International Affairs. He succeeds Merlyn N. Trued, who recently resigned.

President Johnson's nomination of Mr. Knowlton as Assistant Secretary of the Treasury for International Affairs was unaminously confirmed by the Senate on June 19, 1966.

A magna cum laude graduate of Harvard College in 1953, and a 1955 graduate of the Harvard Business School, Mr. Knowlton was a partner in the New York investment banking firm of White, Weld and Company before joining the Treasury Department.

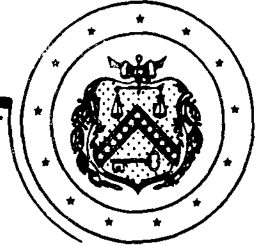
He attended Lawrenceville School, Lawrenceville, New Jersey, and the University of Nanking, at Nanking, China, before going on to Harvard.

Mr. Knowlton is married to the former Grace Daniels Farrar, and they have five children. They reside at 1121 Spring Hill Road, McLean, Virginia.

oOo

F-562

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 2, 1966

FOR IMMEDIATE RELEASE

The Treasury Department released the attached letter of this date by Secretary of the Treasury Fowler to Senator A. Willis Robertson, Chairman of the Senate Banking and Currency Committee.

Attachment

F-563

THE SECRETARY OF THE TREASURY
WASHINGTON

August 2, 1966

Dear Mr. Chairman:

I appreciated very much your letter of July 28, 1966, advising me of your agreement to expedite action on bills relating to financial institutions in which the Administration is interested. I welcome the opportunity you have afforded me to advise you of the Administration's position on the important legislation pending with regard to such institutions.

As you know, there has been a great deal of discussion of ways and means to insure that a significant part of the country's savings will continue to be available for investment in home mortgages, and to insure stability in the interest rate structure within the financial community. It is the view of the Administration, and I am pleased to note that it is yours also, that the present authority of the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation to establish maximum interest rates which may be paid on bank deposits should be broadened to enable those agencies to establish different categories of deposits for interest rate limitations and should be made discretionary. For example, they should be permitted to fix different limitations for different size deposits, an authority that is now lacking.

The recent action of the Federal Reserve Board in limiting interest rates payable on "multiple maturity" time deposits and the fact it has recommended enactment of S. 3627 indicates, in my opinion, a willingness on its part to take action to limit undue rate competition. Therefore, I believe it is possible to return to the original idea of granting discretionary authority to the bank regulatory agencies, rather than involving Congress in legislating interest rate ceilings.

It is the Administration view also that the Federal Home Loan Bank Board should be granted stand-by authority to establish maximum rates of interest which may be paid on the share accounts of savings and loan associations; and that

provision should be made for coordination of the actions of the three agencies in the exercise of discretionary powers relating to interest rates.

In addition to these provisions, all of which are incorporated in the Federal Reserve Board bill, S. 3627, it is the view of the Administration that (1) the Board of Governors of the Federal Reserve System should be authorized to raise reserve requirements on time and savings deposits to a maximum of 10% rather than the present 6%; and (2) the authority of the Federal Reserve System should be broadened so that it can purchase the obligations of any agency of the United States. This would enable it to acquire obligations of the Home Loan Bank Board and the Federal National Mortgage Associations, among others.

I am sure that I can speak for the entire Coordinating Committee on Bank Regulations, as well as myself, in expressing our gratification that your subcommittee will consider on August 2, 1966, the Financial Institutions Supervisory Act of 1966. As you know, we believe there is a substantial need for this legislation and we are very hopeful that it can be enacted in satisfactory form at this session of the Congress.

Sincerely yours,

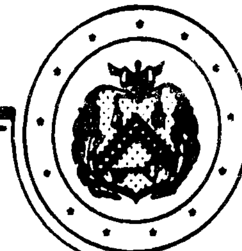
S/ Henry H. Fowler

Henry H. Fowler

The Honorable
A. Willis Robertson, Chairman
Committee on Banking and Currency
United States Senate
Washington, D. C. 20510

TREASURY DEPARTMENT

WASHINGTON, D.C.



August 3, 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 August 11, 1966, in the amount of $2,302,555,000, as follows:

91-day bills (to maturity date) to be issued August 11, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated May 12, 1966, and to mature November 10, 1966, originally issued in the amount of $1,001,478,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated August 11, 1966, and to mature February 9, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 8, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 11, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 11, 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.

oOo

STATEMENT BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
9:30 A.M., THURSDAY, AUGUST 4, 1966

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to present the views of the Treasury Department in regard to legislation to restrain excessive competition for savings. Enough has been said and written on this subject during the past several months to render unnecessary any lengthy review of background developments and I shall therefore confine these remarks to a brief statement of our present thinking.

It seems clear first of all that excessive competition for savings is having a number of unfortunate effects that deserve attention. It is raising interest rates sharply on home mortgages and slowing down the flow of mortgage money even when the homebuyer is willing and able to pay the higher rates. Mortgage rates have risen about 1/2% or more since late 1965, while some of the lenders who are usually most active in the mortgage market -- savings and loan associations and mutual savings banks -- have cut back their commitments substantially.

Home building, as an industry, is adversely affected. The resources it employs are only partly transferable to other areas of activity where demand is greater and thus there is

economic waste in requiring this industry to bear a heavily disproportionate share of the burden of over-all restraint -- however justifiable that over-all restraint might be.

The rate competition is potentially dangerous, moreover, in possibly encouraging thrift institutions to take an over-extended position, tending to reach for higher-yielding but less liquid credits in order to cover their higher rates paid on savings accounts.

Commercial banks have been better able to hold their own in the fierce competition for savings. In the first half of 1966, savings and loan associations gained only $2 billion in savings accounts as against $4.3 billion in the year earlier period. Mutual savings bank deposits gained $.8 billion in the first half of 1966 as against $1.8 billion a year earlier. Time and savings deposits at commercial banks were up $9.5 billion in the first half of 1966 compared with a rise of $10.7 billion in the comparable period a year earlier.

In these circumstances it seems clear to us that the supervisory authorities need more effective tools at their command to deal with interest rate competition for savings in a manner consistent with the orderly functioning of financial markets.

On July 25 the House Committee on Banking and Currency, after extensive hearings on the subject, reported out a bill designed to protect a part of the local savers market for investment in home mortgages and to help stabilize the interest rate structure. These objectives are most welcome.

After the House Committee issued its report, the Treasury convened a meeting of the Coordinating Committee to discuss the issues involved. This Committee includes the Chairman of the Federal Reserve Board, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the Federal Home Loan Bank Board. The Committee reached unanimous agreement that the Congress should:

1. Grant to the Federal Reserve Board flexible authority to establish different categories of deposits for interest rate limitations.

2. Give the same authority to the Federal Deposit Insurance Corporation.

3. Grant stand-by authority to the Federal Home Loan Bank Board to set maximum rates of interest on the share accounts of savings and loans.

4. Provide for coordinated use of these flexible authorities by the agencies named above.

5. Grant to the Federal Reserve Board the authority to raise reserve requirements on time and savings deposits to a maximum of 10 per cent.

6. Broaden the authority of the Federal Reserve System so that it can purchase the obligations of any agency of the United States Government.

The first four of these points are in essence the same as those in the legislative proposals recently made to your Committee by the Federal Reserve Board.

I should note that the third point -- authority of the Home Loan Bank Board to set maximum dividend rates for member savings and loan associations -- is quite essential to the whole program. This was clearly demonstrated by the experience of late June when a number of savings and loan associations pushed their rates higher despite the admonitions of the Board.

The fifth point -- giving the Federal Reserve authority to raise reserve requirements on time and savings deposits to a maximum of 10% -- should be helpful in providing our monetary authorities with greater flexibility in controlling the growth of credit in the economy and restraining unwarranted excesses in the bidding up of short-term funds.

The final point in our suggested program -- broadening the authority of the Federal Reserve so that it can purchase the

obligations of any agency of the United States Government -- would make clear and uniform the areas of authority that are now piecemeal. There would be no intention here of putting pressure on the Federal Reserve to engage in any large program of underwriting the market offerings of Federal agencies, but we do feel that even a modest participation in the market by the central bank should help in broadening the market for agency issues and reducing the high rates of interest at which these offerings have recently had to be made.

This program is not presented as a panacea for all the difficulties facing the financial markets, or particularly the mortgage market, at this time. We believe it would, however, tend to restrain the unhealthy escalation of interest rates in the competition for savings -- which has not really served to increase over-all flows of savings in the economy, and it would help to stabilize mortgage interest rates. It would tend to restrain the outflows of funds from thrift institutions and protect the liquidity and general soundness of those institutions. Accordingly, it would help to support homebuilding activity, and the ability of prospective homebuyers to finance their purchases.

TREASURY DEPARTMENT
Washington

FOR RELEASE AFTERNOON NEWSPAPERS
SATURDAY, AUGUST 6, 1966

REMARKS OF THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
AT THE
GRADUATION OF THE 3525TH PILOT TRAINING WING
WILLIAMS AIR FORCE BASE, ARIZONA
ON SATURDAY, AUGUST 6, 1966, AT 9:00 A.M. (MST)

On April 7 last year in the city of Baltimore, the President of the United States spoke of a world at the crossroads.

"This generation of the world," he said, "must choose: destroy or build, kill or aid, hate or understand."

I have come to Phoenix today to tell you what can happen in one of the vast and heavily populated areas of the world when the threat of hatred, violence, and destruction is removed or drastically curtailed. I am speaking of Asia and the hopeful developments which are taking place there today.

In his speech in Baltimore more than a year ago, the President made two points: first, that we would honor our commitments in Southeast Asia, and, second, that paralleling this military activity we would throw the might and the prestige of this nation into a cooperative effort with the peaceful countries of Asia to develop the economic potential of those lands.

F-565

It is to the second phase of this struggle that I want to address myself today. I want to tell you about the progress that the Asians have made since last April in getting their countries moving towards a solution of the age-old problems of hunger, sickness, ignorance, and poverty which have lived with the people almost from the beginning of time.

But before I begin a catalog of Asian progress on the economic front, I want to emphasize one point: economic development is almost impossible unless it can be carried on in a climate where there is at least hope for order and peace.

The military efforts we are engaged in are not only the honorable fulfillment of a solemn pledge; they are also the shield behind which the people of Asia are beginning to stir. Economic development is usually not dramatic -- it seldom catches world headlines. But the progress of Asian cooperation reflects the real objectives of this nation.

Let me quote the President's Baltimore speech again: "We often say how impressive power is. But I do not find it impressive at all.... A dam built across a great river is impressive.... A rich harvest in a hungry land is impressive. The sight of healthy children in a classroom is impressive."

In these words the President characterized our economic objectives in Asia. Sixteen months have elapsed since then. This is a fitting occasion to sum up the progress that has been made.

First and foremost, I would like to tell you something about the Asian Development Bank. This is a project that is very close to my heart, because the President assigned to me the responsibility for assisting Mr. Eugene Black, former President of the World Bank, in developing the United States Government's position with respect to this far-seeing idea, shortly after the Baltimore speech. He assigned to Mr. Black the responsibility for coordinating our entire economic effort in Asia, including the Asian Bank. I was to develop a coordinated U. S. position on the Bank, to take charge of our negotiations, and, finally, to make certain that the Congress concurred with our objectives.

In his Baltimore speech, the President threw the full weight of our nation behind this Asian idea: the creation of an Asian development bank. He indicated the United States' willingness to cooperate in the Asian Development Bank project with all Asian nations which are members of the United Nations or any of its specialized agencies, all the Asian nations which

are members or associate members of the United Nations Economic Commission for Asia and the Far East, and all developed non-Asian members of the United Nations. This, of course, includes the Soviet Union. He stressed the importance of creating an institution in which the nations in the area could develop plans to meet their problems and share advice and counsel as they move towards their objectives.

Frankly, I was astounded by how much work had already been done by the nations of Asia, in the great arc from Iran to Korea, and how quickly agreement was reached. In the relatively short time span of eight months, a charter was agreed upon, subscriptions to capital stock were approved, and, at Manila on December 4, 1965, 22 countries signed the Articles of Agreement. An additional nine countries have since signed the Agreement. The signatory nations have submitted the Agreement to their respective parliaments for approval, and the inaugural meeting of the Asian Development Bank is now scheduled to be held in Tehran in October of this year.

To the best of my knowledge, this is the first example in recorded history of a major cooperative effort by the nations of Asia under which they themselves will provide the major share of the organizational and managerial talent as well as of the resources. In this instance, 19 Asian nations have come

together freely to pledge their resources in collective efforts to improve the economic lot of the whole region.

The signing of the Charter of the Asian Development Bank was only the first of a series of notable developments which have taken place since the President's Baltimore speech and from the assurance our determination in Vietnam has given to Asia that there is hope for order and peace.

Late in 1965, at the time the Asian Development Bank was being put together, the Ministers of Education of South Vietnam, Laos, Malaysia, Singapore, and Thailand met with Mr. Black in Bangkok to consider the problems involved in achieving greater regional cooperation in the field of education. A Secretariat of the Asian Ministers of Education was subsequently formed to ensure that continuing attention would be given to exploring the prospects for regional cooperation to help solve the educational problems of the area. A number of interesting new approaches are now under active consideration including the possible establishment of an Asian Institute of Technology, and other regional centers of excellence in tropical medicine research, agricultural research, science and English language teaching, and other fields. These prospects were the subject of review by over 100 specialists from Southeast Asian countries who met in Kuala Lumpur at the end of July.

One of the most impressive and well established Asian initiatives in Southeast Asia is the Mekong Development Committee. This Committee, which was first formed by Cambodia, Laos, South Vietnam, and Thailand in 1957, is now supported by 21 outside nations and 12 agencies of the United Nations.

The Mekong Development Committee has an established professional staff in Bangkok. It is actively promoting and coordinating the planning of water resources development projects in the Lower Mekong River Basin. Exclusive surveys and investigations have already been undertaken. Feasibility studies are being carried out on priority projects. Several tributary dams and other works are in the engineering and construction phase. Development of this great natural resource will involve dozens of projects and require many millions of dollars. Many developed countries will need to contribute. The most recent step in this field has been the establishment of the Nam Ngum Development Fund to finance a hydroelectric project on a tributary of the Mekong River. The United States provided 50% of the funds and seven other countries provided the balance.

Still another important Asian initiative lies in the field of banking and finance. Governors of the Central Banks of Ceylon, Laos, Malaysia, the Philippines, South Vietnam, and Thailand met in Bangkok in February to discuss economic and social development plans, monetary policy, regional cooperation, and the future operations of the Asian Development Bank. This may be the beginning of a regularized series of meetings over the coming years.

Only a few months ago the Japanese Government launched a major new initiative among their Asian neighbors. High level representatives of all the countries of Southeast Asia except Burma sat down together in Tokyo last April to discuss the problems of regional economic development. That was the first major international conference of this kind called at Japanese initiative since before the second World War.

One of the most hopeful results of the Southeast Asia Ministerial Conference in Tokyo was the decision to convene a Southeast Asia Agricultural Development Conference sometime during the coming year -- perhaps as early as this autumn. A conference of this kind would be another "historic first" in Asian affairs. It might well result in the creation of an

Agricultural Development Fund operating in conjunction with the Asian Development Bank.

In June, 1966, ten nations -- Japan, Republic of China, Australia, Thailand, South Vietnam, the Philippines, Malaysia, New Zealand, Korea, and Laos -- met in Korea and agreed to establish an Asian and Pacific Council. This is to be a loosely knit regional organization which will be a forum for continuing consultation on political, economic, technical, and social affairs.

In addition to the primarily economic accomplishments which I have outlined above, I want to mention two far-reaching political events which will bear directly on economic development in Asia. India and Pakistan last fall decided to halt a growing conflict that could have wrecked their development plans. Indonesia, it appears, has decided to end its confrontation with Malaysia and concentrate its efforts instead on bringing order into its economy.

These are the highlights of the progress made in Asia during the 16 months that have elapsed since President Johnson stated our Asian objectives in Baltimore and our willingness to participate in a cooperative development program.

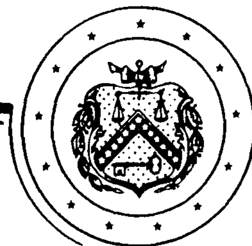
It is a hopeful record. It is a record in which all of the countries involved can take great pride.

Asia is stirring; it is moving; it is alive with a new spirit. For the first time in modern history, Asia has great hopes.

I think reasonable men must admit that the hope we see in Asia today and the progress the nations of Asia are making toward economic cooperation and development could not have been expected without the military shield held so proudly and determinably by our forces in Vietnam.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 3, 1966

FOR USE IN MORNING NEWSPAPERS OF
THURSDAY, AUGUST 4, 1966

FRANKLIN ROBERT SAUL FIRST RECIPIENT
OF NEW TREASURY HONOR AWARD

Secretary of the Treasury Henry H. Fowler today presented the Office of the Secretary Honor Award to Franklin Robert Saul, Assistant to the Secretary for Debt Management.

Mr. Saul, 35, and a native of Belleville, New Jersey, is leaving the Treasury Department to return to private business.

The new award, established in July 1965, is for "outstanding service related to the Office of the Secretary of the Treasury."

Mr. Saul joined the Treasury on May 1, 1965, after 10 years with the First National City Bank of New York, where he was a vice president.

The citation for the award to Mr. Saul is attached.

Attachment

F-566

CITATION

OFFICE OF THE SECRETARY HONOR AWARD

FRANKLIN R. SAUL

Franklin R. Saul, in fifteen months as Assistant to the Secretary (Debt Management) during 1965-66, has made an outstanding contribution to the Treasury.

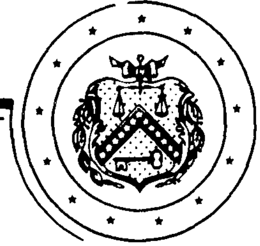
His expert knowledge of financial markets, imaginative and flexible approach to the adaptation and innovation of financing techniques, and sound judgment have been of enormous value in helping to guide the Treasury through an unusually difficult period in its debt management operations.

In addition to the Treasury's own debt operations, he has made a significant contribution in shaping and coordinating the increasingly large and complex financial operations of various Federal Government agencies.

In his wide range of contacts with other Government agencies, the financial community, and the public, he has been a most able and effective representative of the Treasury Department.

For his achievements and contributions in these areas, Franklin R. Saul is deserving of the Office of the Secretary Honor Award.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 4, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON STEEL WELDED WIRE MESH
UNDER THE ANTIDUMPING ACT

The Treasury Department has completed its investigation with respect to the possible dumping of steel welded wire mesh for concrete reinforcement from Italy. A notice of intent to close this case with a determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended, will be published in an early issue of the Federal Register.

The merchandise under consideration consists of lightweight concrete reinforcement mesh for buildings.

Purchase price was found to be lower than home market price or third country price with respect to two of the firms investigated. Purchase price was not lower than home market price with regard to the other firm's shipments.

During the early stages of the antidumping investigation, the two firms selling below home market price or third country price revised their prices which eliminated the likelihood of sales below fair value. Assurances were given that irrespective of how the presently pending dumping proceeding was determined, no future sales to the United States will be made at prices which could be construed to be at less than fair value. There appears to be no likelihood of a resumption of prices which prevailed before such price revision.

Appraisement of the above-described merchandise from Italy will continue to be withheld pending further determination.

Imports of the involved merchandise received during the period September 1, 1964, through December 31, 1965, were valued at approximately $600,000.

STATEMENT BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE
9:30 A.M., THURSDAY, AUGUST 4, 1966

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to present the views of the Treasury Department in regard to legislation to restrain excessive competition for savings. Enough has been said and written on this subject during the past several months to render unnecessary any lengthy review of background developments and I shall therefore confine these remarks to a brief statement of our present thinking.

It seems clear first of all that excessive competition for savings is having a number of unfortunate effects that deserve attention. It is raising interest rates sharply on home mortgages and slowing down the flow of mortgage money even when the homebuyer is willing and able to pay the higher rates. Mortgage rates have risen about 1/2% or more since late 1965, while some of the lenders who are usually most active in the mortgage market -- savings and loan associations and mutual savings banks -- have cut back their commitments substantially.

Home building, as an industry, is adversely affected. The resources it employs are only partly transferable to other areas of activity where demand is greater and thus there is

economic waste in requiring this industry to bear a heavily disproportionate share of the burden of over-all restraint -- however justifiable that over-all restraint might be.

The rate competition is potentially dangerous, moreover, in possibly encouraging thrift institutions to take an over-extended position, tending to reach for higher-yielding but less liquid credits in order to cover their higher rates paid on savings accounts.

Commercial banks have been better able to hold their own in the fierce competition for savings. In the first half of 1966, savings and loan associations gained only $2 billion in savings accounts as against $4.3 billion in the year earlier period. Mutual savings bank deposits gained $.8 billion in the first half of 1966 as against $1.8 billion a year earlier. Time and savings deposits at commercial banks were up $9.5 billion in the first half of 1966 compared with a rise of $10.7 billion in the comparable period a year earlier.

In these circumstances it seems clear to us that the supervisory authorities need more effective tools at their command to deal with interest rate competition for savings in a manner consistent with the orderly functioning of financial markets.

On July 25 the House Committee on Banking and Currency, after extensive hearings on the subject, reported out a bill designed to protect a part of the local savers market for investment in home mortgages and to help stabilize the interest rate structure. These objectives are most welcome.

After the House Committee issued its report, the Treasury convened a meeting of the Coordinating Committee to discuss the issues involved. This Committee includes the Chairman of the Federal Reserve Board, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, and the Chairman of the Federal Home Loan Bank Board. The Committee reached unanimous agreement that the Congress should:

1. Grant to the Federal Reserve Board flexible authority to establish different categories of deposits for interest rate limitations.

2. Give the same authority to the Federal Deposit Insurance Corporation.

3. Grant stand-by authority to the Federal Home Loan Bank Board to set maximum rates of interest on the share accounts of savings and loans.

4. Provide for coordinated use of these flexible authorities by the agencies named above.

5. Grant to the Federal Reserve Board the authority to raise reserve requirements on time and savings deposits to a maximum of 10 per cent.

6. Broaden the authority of the Federal Reserve System so that it can purchase the obligations of any agency of the United States Government.

The first four of these points are in essence the same as those in the legislative proposals recently made to your Committee by the Federal Reserve Board.

I should note that the third point -- authority of the Home Loan Bank Board to set maximum dividend rates for member savings and loan associations -- is quite essential to the whole program. This was clearly demonstrated by the experience of late June when a number of savings and loan associations pushed their rates higher despite the admonitions of the Board.

The fifth point -- giving the Federal Reserve authority to raise reserve requirements on time and savings deposits to a maximum of 10% -- should be helpful in providing our monetary authorities with greater flexibility in controlling the growth of credit in the economy and restraining unwarranted excesses in the bidding up of short-term funds.

The final point in our suggested program -- broadening the authority of the Federal Reserve so that it can purchase the

obligations of any agency of the United States Government -- would make clear and uniform the areas of authority that are now piecemeal. There would be no intention here of putting pressure on the Federal Reserve to engage in any large program of underwriting the market offerings of Federal agencies, but we do feel that even a modest participation in the market by the central bank should help in broadening the market for agency issues and reducing the high rates of interest at which these offerings have recently had to be made.

This program is not presented as a panacea for all the difficulties facing the financial markets, or particularly the mortgage market, at this time. We believe it would, however, tend to restrain the unhealthy escalation of interest rates in the competition for savings -- which has not really served to increase over-all flows of savings in the economy, and it would help to stabilize mortgage interest rates. It would tend to restrain the outflows of funds from thrift institutions and protect the liquidity and general soundness of those institutions. Accordingly, it would help to support homebuilding activity, and the ability of prospective homebuyers to finance their purchases.

TREASURY DEPARTMENT
Washington

FOR RELEASE AFTERNOON NEWSPAPERS
SATURDAY, AUGUST 6, 1966

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SECTION OF TAXATION
AMERICAN BAR ASSOCIATION
QUEEN ELIZABETH HOTEL, GRAND BALLROOM
MONTREAL, CANADA
AUGUST 6, 1966 - 12:00 NOON

CURRENT TAX DEVELOPMENTS

The topic of "Current Tax Developments" is a safe one even when chosen many months in advance and whatever the audience involved. There are sufficient matters churning in the tax field to please or worry any particular group. The task is thus more of selecting among many subjects rather than a lack of material.

My last appearance before this distinguished audience was five years ago, in a luncheon talk at St. Louis. I then had occasion to say, "I believe we are entering on a period of significant change in the Federal tax structure". In retrospect this strikes me as a successful prophecy -- and a gross understatement. The five intervening years have brought profound and widespread changes in our Federal tax

system -- changes in the structure itself and changes in our ways of thinking about that structure and its functions. Nor will the future be different. Nor should it be. A vital, ever-changing and developing tax system is but a reflection of a developing country, and an assurance that the tax system is playing its necessary role in that development.

Of course, the Treasury sometimes regards the pace as too slow in some matters, and too fast in others. And I can well hear the lament of "vice versa" that many in the tax bar would want to add from their perspective.

But clearly, with so much that needs attention and doing, unless the pace is swift and demanding we will fail in our objective of maintaining a tax structure responsive to the needs of our society. We are familiar with the agenda of issues involving the important concerns of tax equity and simplification. At the same time, we can see ahead many new problems which cannot wait until we finish our agenda of existing issues.

For each of our Great Society goals -- elimination of poverty, an end to discrimination, improvement of education, improvement in urban life, improvement in the quality of our physical surroundings -- we find the question asked -- "Can and should the tax system play a specific role?"

As an illustration, consider the war on poverty. This raises, in a new way, the question of how the level of social security benefits and their financing is related to poverty. It also raises the question of whether the present system of tax benefits for the aged is an appropriate response to the problems of the aged poor. Most dramatic of all is the emerging discussion whether a program of fixed money grants linked to the tax system through negative rates may provide a serious alternative to the present system of categorical public assistance programs.

The question of the role of the tax system is also raised in the international area -- as in the need for balance of payments equilibrium, or in our relationships with the developing nations.

Finally, overriding all of these concerns is the responsibility of the tax system to play its fiscal policy role, in

proper coordination with monetary policy, of promoting economic growth and providing the economic base to meet our domestic needs and international obligations -- a responsibility that requires a structure properly adapted to long-run needs and at the same time sufficiently flexible to be responsive to the current economic climate.

We see that we must look both at our familiar tax problems and at the new possibilities of the tax system in relation to a dynamic economy. But we must also guard against our own tax introspection and against wasting our energies on debating old slogans in situations where the real issues have moved elsewhere. A fast pace of legislative activity seems common around the world. The debates and analyses related to tax policy issues in other countries are valuable to us as a source of both new questions and new answers. For this reason we are particularly awaiting the forthcoming report of the Royal Commission on Canadian Tax Reform. Such reports give us a chance to consider anew in our country whether we can still tell forests from trees, mountains from molehills, or what you will. And indeed, there are always some recommendations in these reports that make our tax bar thankful

for those "sound fellows in our Treasury Department".

These tasks and challenges facing our tax system and those concerned with its future course are thus formidable -- and indeed on the bleak days, overwhelming.

But we are not without resources, both at hand and capable of development. I recently had occasion to speak on Computer Technology and Federal Tax Policy, and described the analytical tools for tax research that were being developed in this context. For example, an income tax model, consisting of a magnetic tape data file containing a random stratified sample of tax returns and a computer tax program for its use, enables the Treasury to test quickly a large variety of proposals respecting the income tax. Similar models are being developed for the corporation tax and the estate tax. Models of this nature also assist in testing the validity of certain policy hypotheses underlying various existing tax provisions, especially those based on the approach of providing a tax incentive toward reaching desirable social goals.

Further experimentation with analytic computer models providing simulated business experience appears to offer opportunities for greatly expanded knowledge regarding our tax system. Thus, we are becoming increasingly optimistic that our current computer study of depreciation will furnish considerable guidance on the workings and mechanical validity of the reserve ratio test under the depreciation guidelines and on the technical application of the more complex aspects of depreciation methods, such as the sum of the years-digits method. We also are hopeful the study will throw light on the impact on the effective tax rates of different taxpayers -- and hence on the tax equity aspect -- of permitting various degrees of non-conformity between the tax life used for a group of depreciable assets and a taxpayer's actual rate of replacement for those assets. Preliminary results indicate variations in these effective tax rates to an extent that might well cause our Canadian friends to throw a skeptical glance at their system of depreciable tax lives, which abandons conformity in favor of certainty in administration.

We are also engaged, through a contract with an outside research group, in exploring a simulation study on the subject of tax influences on real estate investment. We are hopeful that this study, and associated research of a conventional character, will not only give us fresh insights into the workings of a number of tax provisions affecting real estate investment, but also useful information on the relationship of the tax system to our goals in urban development.

We are also pursuing our research regarding the influence of the tax system on investment, with particular reference to methods of accelerated depreciation available since 1954 and the significant changes that occurred with the institution of the investment credit and the depreciation guidelines. The economists are still at the frontiers of a theory of business investment, and this is why their work is so challenging -- and frustrating -- to a tax planner. But theoretical and econometric analysis are proceeding rapidly and we are hopeful of useful insights. Indeed, there is some current econometric analysis regarding the investment credit which would indicate it possesses a powerful and sensitive thrust, suggesting that

one should proceed cautiously in considering changes in its application lest the economic levers are pulled or pushed too far.

Given the variety of problems and research tools, we can also hope there will be a widening circle of organizations and individuals engaged in tax research. The recent activities of the Brookings Institution and of the National Bureau of Economic Research, to name two organizations prominent in this field, have already added greatly to our knowledge. The economists, as is probably to be expected, are considerably ahead of the lawyers and accountants, though one wonders whether their lead must be so great. Certainly, there is much to study in both the latter fields, and many paths to that study. Thus, as an example, the Treasury and the Association of American Railroads, with the aid of an accounting firm employed jointly, are engaged in a broad study of existing and alternative methods of tax depreciation for railroad track, grading and tunnel expenditures. The thought occurs that there may well be other areas suitable for joint Treasury-private research.

Projects of your Section indicate other possible paths -- such as the work on tax liens which we hope will culminate in the passage this year of the Federal Tax Lien Act of 1966. The research of your Committee on Substantive Tax Reform is also promising, especially if it continues its exploration and description of the basic policy choices that must be made whenever one considers basic tax reform and basic tax simplification -- and if it delineates the policy alternatives and their price tags, both of revenue gain or loss in the specific area affected and of rate reduction or increase if the revenue changes are used in turn to adjust tax rates for all. Perhaps this work, though still showing the broad perspective, will lay open possible paths to changes in specific areas over a period of time.

The recent work of the American Law Institute in the field of estate and gift tax revision is another excellent example. Here also the usefulness of cooperative studies is demonstrated, for the parallel work of the Brookings Institution in the economic aspects of these taxes, based on Treasury supplied data, gives us a broad base of knowledge. The

Treasury is now engaged in its consideration of the research results of these two organizations, in accordance with its earlier decision to await the progress of their work rather than initiate its own research.

I suggest the lesson of these activities is the complexity of tax research. I think we have learned that we do not achieve a sound tax system by concentrating on *ad hoc* solutions to narrowly conceived problems and by being satisfied with a particular provision because it offers some kind of an incentive for some good activity. Tax problems must be analyzed in the context of their relationship to systematic principles of tax law. It is also necessary, if one hopes to take responsible positions in these difficult areas, to relate these analyses to quantitative estimates of amounts involved and likely effects. Helpful results will come, I think, from systematic and to some extent organized research efforts, such as the work of this Section previously mentioned on the tax lien problem.

There are many promising areas calling for the attention of lawyers. Thus the tax bar can and should be useful in

achieving needed revisions in areas where the present shape of the structure is to a large degree its own handiwork, and where it should know better than most the nature of the current problems and defects. Tax-exempt foundations are an obvious example, as are other aspects of tax-exempt organizations, such as the task of picking up the legislative and administrative pieces after the Supreme Court's decision in the Clay Brown case. Pension plans represent another area, which lawyers can share with banks and the insurance companies. And in such matters as the treatment of capital gains at death, the tax bar, without yielding any view it may have on ultimate policy decisions, could well engage in objective consideration of aspects of particular solutions. For example how best to meet problems which certain types of estates, such as closely held companies, may have under a system of taxation of capital gain at death, or how to cope with the practical problems of various transitional paths to that system.

But all this is part of the grand design of our tax system, and much of it lies in other disciplines. You may well be asking what about current Current Tax Developments, so let me turn to this subject.

The current year is one in which tax policy moved from strong fiscal stimulus to fiscal restraint. As a consequence, through reinstated automobile and telephone excise tax rates, adoption of graduated withholding, and a speed-up in various tax collections, many taxpayers have experienced increased tax payments. We are also watching very closely whether the economic situation and budgetary developments call for further tax restraint. Tax planning in this respect has been considerably aided by the work of the Subcommittee on Fiscal Policy of the Joint Economic Committee with regard to tax flexibility and the forms of temporary tax increase measures.

For these reasons, reflecting the President's Economic Report, the Treasury has steadily said that this year it must oppose specific tax proposals, however meritorious, that involve significant net tax reduction.

There are always a number of specific problems at hand which find proponents of a tax route to their solution, and this is reflected in the current legislative session. Thus, to name a few, we have measures to increase the tax benefits of H. R. 10 pension plans, to eliminate from taxable income

employer reimbursement of certain employee moving expenses, to provide tax incentives for the installation of anti-pollution equipment, or to provide tax incentives for employer expenses of manpower training. While recognizing the problems in these areas, the Treasury feels that they are not so presently compelling that 1966 must be the year of solution, when viewed against a policy of fiscal restraint and budgetary concern.

Nor are the tax solutions proposed for these areas so clearly obvious as their proponents assert. We can first ask what is the need these areas share in common and what do they seek in common in turning to the tax system. The answer is "Money". While this is not a profound observation and is quickly reached, it does require that we put the next question -- Why should the money come from a tax reduction provision? If the money should come from the Government, as may be necessary to some extent in the case of pollution and manpower training, still, why from a change in the tax structure? Loans or grants may be infinitely more useful ways to hit the

target, as is already the case in our manpower training programs under the Labor Department and in our aid to cities and States in combating pollution.

As for moving expenses, the reimbursed employee does not have a greater claim to money from the Government than the non-reimbursed employee. Clearly the latter has the greatest need for what is being sought -- money -- since he must pay the moving expenses out of his pocket. Senator McCarthy's recent bill recognizes this last point and covers all employees. This is a more expensive revenue bill than one confined to reimbursed current employees, but -- in keeping with our present deduction for moving expenses which treats reimbursed and non-reimbursed employees equally -- should at least be the framework within which we can attempt to seek some solution. The problem then becomes one of seeing if any of these fringe expenses should be added to the presently deductible basic moving expenses or should remain as non-deductible costs outside of the definition of income, so that the tax on any reimbursement becomes simply another cost of moving which an employer may choose to bear or not. So

viewed, we would seem to need more analysis before a reasonable answer can be achieved.

Perhaps -- as respects H. R. 10 plans -- the money should come from the taxpayer himself. Much as our doctor friends and we lawyers dislike to admit it, in actual practice the self-employed pension plan becomes a tax reduction arrangement for the better-off professional man, with doctors heading the list. Over 75 percent of the present H. R. 10 deductions are taken by doctors, lawyers, and dentists, and they would thus obtain 75 percent of the tax revenue involved in the pending revision. Indeed, about one-half of the revenue lost would go to individuals in these professions with incomes over $25,000. These plans are not for the plumber, the small shopkeeper, or the farmer -- the savings of these people are needed for their businesses, to meet the social security tax on the self-employed, and for their family obligations -- and therefore are not available for H. R. 10 plans.

A glance at Canadian experience with these plans -- where there is full deduction up to $2,500 without a 50 percent limitation and no employee coverage requirement -- since their

adoption in 1957 is instructive. The latest figures show that six years later -- 1962 -- the rate of participation exceeded an almost negligible figure (3-1/2 percent) only in the professional group -- where we find over 40 percent of the doctors and dentists and 24 percent of the lawyers participating. As respects incomes, the rate of participation is quite low -- never above 6 percent - under $10,000 income -- but is about 30 percent in the $20,000 - $100,000 class. It is apparent that H.R. 10 plans are attractive only to a class with liquid assets and already possessing sufficient security so that some assets can be set aside permanently until after age 65 -- and the only class meeting these conditions is the better-off professional group.

This is not to say that the matter ends here, but it is rather to point out that it appears the H. R. 10 approach to problems of retirement has a distinctly limited usefulness to the great majority of self-employed persons, and that the very small group of professional persons which does benefit is not in such need that the present advantages must be expanded at once. Any change should at least await a resolution of issues in the broader area of pension plans.

Let me mention one other current proposal which concerns lawyers, where the immediate revenue loss is not large but a very vital tax principle is in danger of distortion. I refer to the bill to permit deductions, as charitable contributions, for amounts contributed to campaigns on State referenda regarding judicial reform and constitutional tax revision. These campaigns may be regarded as good causes also seeking the common need -- money -- but here also it is the individual and not the Government who should supply it. For clearly, on reflection, our deduction for contributions becomes a shambles if we permit deductions for lobbying where the causes are "good causes" -- passed on one by one by the Congress.

It may be noticed that all of these matters share a common aspect in addition to the need for money, and that is they are not basically concerned with the traditional tax problem of defining net business income. Rather, they involve the use of the tax system as an incentive to reach certain goals -- control of pollution, manpower skills, labor mobility, security on retirement, support for good causes. (A possible exception in part is the moving expense item, for viewed broadly it can

be said to raise the question of what is the place of moving expenses in the measure of net business income in the modern day.) They all thus underscore the need for adequate cost effectiveness analysis before the answer can be given as to whether a tax solution is more appropriate than a non-tax route.

As the concluding aspect of current tax developments, we can look at tax regulations. Here also -- and I include important TIR's and published rulings in this category -- there has been considerable activity, for a variety of reasons. First, regulatory activity is the clear aftermath of legislative activity, and the many subjects involved in the Revenue Acts of 1962 and 1964 in turn simply meant many corresponding regulations. In some cases these regulations were expressly required to fill out the legislative pattern, as in aspects of the foreign income and the investment credit provisions. Next, regulatory activity has resulted from the desire of the Treasury to offer guidance in areas hitherto left to case-by-case action. The recent proposed Regulations under section 482 respecting parent-subsidiary allocations is an example. The depreciation guidelines are another.

Then, there is the need to revise an existing regulation when changes which have occurred in the area require administrative response. Examples here are:

1. The soon to be published consolidated return regulations, which were also prompted by basic changes in the 1964 Act pointing to increased use of these returns.

2. The proposed regulations on educational expenses, designed to clarify previous regulations shown by litigation to be confusing and ambiguous. Another example of this nature could be a revision of the regulations on fellowships and scholarships if a current study reaches this result.

3. The proposed regulations on mutual swap funds, designed to supply guidance where the taxpayer is probing for the outer limits of statutory language. Another example of possible administrative action is our current study of arbitrage on State and local bond issues where these governmental units are probing for the outer limits of the section 103 exemption of State and local bond interest.

I believe this increase in administrative guidance to be both a desirable and a necessary matter. Reflection on the many tax issues I discussed at the outset of this talk will show how heavily mortgaged is the time of the Congressional tax Committees, and we must remember these Committees also deal with many non-tax matters. A moment's thought on the matters dealt with in recent legislation and those on the horizon will indicate that they involve policy issues generally falling outside the day-to-day activity of the tax bar -- the application of the general technical rules respecting corporations, partnerships and trusts. There really isn't much time for the Congress to restudy and improve the latter rules, nor indeed should they be changed too frequently since they are basic to a working tax system. But how then do we provide for the needed flexibility in the technical joints? How will we secure the improvements that keep these general provisions workable and sensible -- sometimes freeing transactions from useless restrictions or technicalities, sometimes cutting off a gimmick that strays too far from the normal paths of the business world. I suggest this Section give

thought to the problem, and to the ways in which a properly conceived regulatory activity can be a useful answer.

There clearly must be a sharing of burden between Congress and Executive -- and the courts -- with each working in its area of responsibility -- if our tax system is to be responsive to current needs and provide as much guidance and certainty as possible. This is clearly recognized in the Congress -- for every Congressman and Senator who says an interpretative problem should be solved legislatively, there are many more who ask: "Can't you take care of this matter administratively?" All of this suggests that irresponsibility can lie in inaction by the Treasury if it fails to take administrative action on what it sees as an otherwise proper decision -- and the inaction can involve not only the Government's interests but also those taxpayers who happen to be on the same side of the matter. Of course, action can sometimes bring error, but I hazard the thought that more errors will lie in inaction than in action.

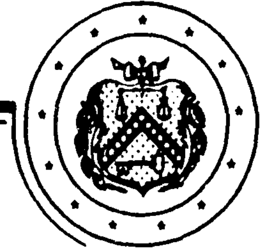
We regard Treasury regulations and important TIR's and rulings as an integral part of the tax policy functions for

which the Treasury Department and the Internal Revenue Service bear responsibility within the Executive branch. As such, these matters receive the constant attention of top level policy officials in the same manner as does legislative policy formulation. This attention is centered on achieving the fairest and most responsible answer possible within the limits and standards set by the legislative provisions. We recognize that, quite properly, we do not share this task of administrative decision-making with other agencies or bodies, so that there is no diffusion of authority and we alone bear the responsibility for the answer.

We consequently seek to obtain, through public hearings, conferences, and discussions, as much information as we can on the problems presented and solutions suggested. The tax bar can here clearly play a vital role -- and your Section indeed does this -- in seeing to the limits of its ability and experience that we receive this information, that we are obtaining the proper perspective and view of the ground to be covered, and that we are made aware of regulations that are no longer responsive to current problems or offer inadequate guidance in the light of current experience.

We seek similar assistance in carrying out, for the President, our task of making recommendations on legislative matters. And so, let me close as I closed my talk five years ago -- for the problems are never ending and the ultimate paths to solutions never changing: "There is much to be done to improve our tax system and there is much that this Section can contribute. This being so, we must work together to see that as an organization and as a profession we meet our share of the responsibility for progress in the field of taxation."

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 5, 1966

'OR IMMEDIATE RELEASE

PRELIMINARY RESULTS OF TREASURY REFUNDING

Preliminary figures show that $10,102 million, or 67.8%, of the $14,893 million ecurities of the five issues eligible for exchange have been exchanged in the urrent refunding offer. About $8,447 million, or 92.5% of the $9,136 million outtanding, were exchanged by holders of securities maturing August 15, and $1,655 illion, or 28.7% of the $5,757 million outstanding, were exchanged by holders of ecurities maturing November 15.

Subscriptions total $5,866 million for the 5-1/4% certificates of Series A-1967 nd $4,236 million for the 5-1/4% notes of Series A-1971, of which $1,435 million for ie certificates and $2,717 million for the notes were received from the public.

Of the eligible securities held outside the Federal Reserve Banks and overnment accounts $2,510 million, or 78.5% of an aggregate of $3,199 million, of ie August 15 maturities and $1,642 million, or 33.5% of an aggregate of $4,901 .llion, of the November 15 maturities were exchanged.

Following is a breakdown of securities to be exchanged for the new issues mounts in millions):

ELIGIBLE FOR EXCHANGE			SECURITIES TO BE ISSUED			UNEXCHANGED	
Securities	Date Due	Amount	5-1/4% Ctfs. A-1967	5-1/4% Notes A-1971	Total	Amount	%
notes, A-1966	8/15/66	$ 8,436	$5,601	$2,317	$7,918	$ 518	6.1
bonds, 1966	8/15/66	700	265	264	529	171	24.4
tal August maturities		9,136	5,866	2,581	8,447	689	7.5
PREREFUNDING							
5/4% ctfs., A-1966	11/15/66	1,652	-	513	513	1,139	68.9
notes, E-1966	11/15/66	2,254	-	554	554	1,700	75.4
5/8% bonds, 1966	11/15/66	1,851	-	588	588	1,263	68.2
al November maturities		5,757	-	1,655	1,655	4,102	71.3
Grand Totals		$14,893	$5,866	$4,236	$10,102	$4,791	32.2

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

F-569

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON H. R. 13103
MONDAY, AUGUST 8, 1966

Mr. Chairman and Members of the Committee:

I am appearing before you to urge prompt and favorable action on H. R. 13103, legislation which is intended to establish equitable tax treatment for foreign investment in the United States. Passage of this bill will serve an important national objective by providing a comprehensive and integrated revision of our present system of taxing foreign individuals and foreign corporations on income derived from the United States. The revision is supportable on tax policy criteria and brings our system of taxing foreigners more into line with the rules existing generally in the other developed countries of the world. A fundamental and enduring consequence of this revision will be increased interest on the part of foreigners generally in investment in the United States. This proposed legislation, therefore, is one of the important positive elements of our long range balance of payments effort.

Background of Proposals

In his Balance of Payments Message of July 18, 1963, President Kennedy announced he was appointing a task force to review U. S. Government and private activities which adversely affect foreign purchases of the securities of U. S. companies. The group was composed of representatives of finance, business, and government. This task force, of which I had the privilege of serving as chairman,

studied various courses of action which could be adopted in both the private and public sectors to encourage foreign ownership of U. S. securities.

In April, 1964, the task force issued its report containing 39 recommendations, which called for a broad range of actions by U. S. international business organizations and financial firms, as well as by the Federal Government, to bring about broader foreign ownership of U. S. corporate securities. Among the recommendations directed toward the Government those dealing with the taxation of foreign individuals and foreign corporations have the most significant and immediate impact.

Issuance of the task force report prompted a broad and intensive review by the Treasury of rules governing taxation by the United States of foreign individuals and foreign corporations. This review considered these rules not only from the standpoint of the balance of payments but also in view of conventional tax policy considerations. As a result of this review, on March 8, 1965 the Treasury Department submitted to the Congress proposed legislation containing proposals in all of the tax areas dealt with in the task force report, and also in other areas where it appeared that change was desirable to make the present system more consistent with rational tax treatment of foreign investment. The House Ways and Means Committee then thoroughly considered that bill, as well as several areas not covered by the bill, and, following public hearings, a new version of the bill

(H. R. 11297) was introduced by Chairman Mills on September 28, 1965 and public comments on the revised bill were invited. The Committee then further considered the matter in executive session and Chairman Mills introduced a revised version (H. R. 13103) on February 28, 1966. Following public hearings on March 7, 1966, H. R. 13103 was favorably reported out of the Ways and Means Committee and passed by the House of Representatives without opposition on June 15, 1966.

The Treasury Department agrees with the view expressed by the task force and in the House Ways and Means Committee Report that many of the existing rules applicable to foreign investors in the United States are outmoded and inconsistent with sound tax policy and as a result deter foreign investment, to the detriment of our balance of payments position. These rules were enacted many years ago and do not reflect the changes in economic conditions which have occurred over the last fifteen years.

Examples of tax rules which impede foreign investment in this country are many: The present level of our estate tax -- much higher on foreigners than on U. S. citizens -- is completely out of line with the rates generally prevailing elsewhere in the world and acts as a significant deterrent to potential foreign investors. Also, the fact that we require income tax returns from foreigners who only make passive investments here is inconsistent with international tax practice and hinders foreign investment in the United States. These and other aspects of our system of taxing foreigners contribute to the widely-held view that investment in U. S. securities poses such serious

tax problems for the foreign investor that it cannot be undertaken without the benefit of expensive tax advice. At the same time, some of these provisions are extremely difficult, if not impossible, to enforce, or are susceptible of relatively easy avoidance by the sophisticated foreign investor. Since they deter many foreign investors and are avoided by the rest, they give rise to almost no tax revenue.

However, this bill is not intended to convert the United States into a tax haven nor divert investment capital to the United States from less developed countries. The purpose of this bill is to provide equitable tax treatment for foreign investment in the United States. At the same time we recognize that this purpose will not be served if the bill violates proper tax policies or international tax standards, thereby setting off a competitive contest among the developed nations of the world to attract foreign investors through tax devices. To attract foreign investors, the United States must offer not "tax breaks" or "tax gimmicks" -- it must offer a growing and dynamic economy. We believe our record of economic growth over the last six years and our prospects for the future are sufficient to induce a substantial increase in foreign investment if our tax system does not act as a bar.

Moreover, policies of this bill are consistent with the general policy of the United States which treats foreign capital on a basis of equality with domestic capital. Thus, there generally is no

requirement that a foreign investor apply to U. S. authorities for permission to invest; the policy of the United States is to avoid interference with the right of foreigners to engage in particular types of economic activity in the United States; there are no legal provisions requiring the participation of domestic capital in foreign enterprises engaged in business in the United States; and the United States has no exchange controls, there are no restrictions on the remittance of business profits, or income from passive investments, and U. S. dollars are freely convertible in the market for any currencies and for all purposes; and the U. S. economy offers foreigners a safe, ready and diversified investment market which has an outstanding record of economic growth.

The United States -- with a GNP of $732 billion, personal consumption expenditures of $459 billion, business expenditures on new plant and equipment of $52 billion in 1965; an increase of $28 billion in GNP for the first half of 1966, the sixth year of our economic upswing, an open door policy under which President Johnson said "The United States warmly invites businessmen from other industrial countries to explore the many promising investments and licensing opportunities in the U. S. A." -- offers to foreign investors an opportunity to take advantage of the potentials of investing in a great and growing market place. These investments will contribute to the long-range economic growth of the United States and the investing country. The bill should encourage such investments by

removing certain tax obstacles involved in the present system.

Enactment of H. R. 13103 will result in a revenue gain of about $1 million annually. In addition, in the fiscal year 1967 only, it is expected that the bill will produce a revenue gain of approximately $22.5 million by reason of the provision requiring U. S. withholding agents to remit taxes withheld on payments to foreigners more frequently than on an annual basis, as is the case under present law. (See Table I on page 7 of the Report of the Committee on Ways and Means on H. R. 13103, entitled "Estimated revenue changes resulting from the foreign investors tax bill").

Impact of H. R. 13103 on the Balance of Payments

There is no way of estimating with any degree of precision the impact of the bill on foreign investment in the United States or the resulting benefit to our balance of payments. The factors governing securities investment are many and complex. Even in purely domestic transactions, intangibles such as habit, convenience, and past experience may be as important as yields, price-earnings ratios and other economic indicators.

Although difficult to quantify, there is ample evidence of a sizable potential for attracting foreign investment in U. S. corporate securities, particularly stocks, by residents of the prosperous countries of Continental Europe. After more than a decade of rapidly rising incomes, Europeans have to a large extent fulfilled many of

their most pressing consumer needs and are accumulating savings at a high rate. Individuals in Europe are turning increasingly towards securities investment, as shown by the rising activity on European stock exchanges, the large number of new offices being opened in Europe by American securities firms, and rising sales of mutual fund shares. Yet, even now, in Europe only 1 person in 30 is a shareowner as compared to 1 in 11 in the United States.

At the end of 1965, foreigners held an estimated $12.5 billion of U. S. corporate stocks valued at market prices. In every year since 1950 except three, foreign purchases of U. S. stocks have exceeded foreign sales and in the seven years between 1959 and 1965, net purchases by foreigners averaged $175 million (both excluding certain foreign governmental transactions). These net figures are the residual of total transactions which in recent years have been about $2-1/2 billion to $3-1/2 billion each year for both purchases and sales. A small percentage increase in such purchases, therefore, could have had a substantial effect on the net balance of transactions.

If the amount of additional investment expected to result from H. R. 13103 were merely a function of the amount of tax saved, there would be little improvement in the balance of payments. More important than any tax savings to foreigners, however, is the substantial effect which will result from the simplification and rationalization of our tax treatment of foreign investors. Our high estate tax on foreigners, for example, is widely considered by experts to be one of the biggest

barriers to foreign investment. Existing estate tax rates almost certainly deter many foreigners from investing here at all. This is particularly so because the exemption is limited to only $2,000 -- nearly any investment whatsoever will subject the estate to tax and require filing of an estate tax return. It is not surprising under these complexities that the small foreign investor may avoid purchasing U. S. stocks because of the inconvenience of the estate tax; the big investor also may avoid such purchasing because of the size of the tax itself.

Viewed in this light, it is clear that the changes contained in H. R. 13103 should in time materially increase the volume of foreign investment in the United States. Based on the sizable potential for foreign purchases of U. S. corporate stocks which is known to exist, we expect that the legislation will eventually result in a meaningful additional capital inflow, other factors remaining unchanged. Some time -- perhaps one to two years or maybe more -- will be required before foreigners can reorient their reactions to the United States tax system and complete the adjustment of their portfolios to take advantage of H. R. 13103, but a substantial impact may be felt in the period ahead.

Specific Proposals Contained in H. R. 13103

I should like to review at this time the principal substantive changes embodied in H. R. 13103.

Capital Gains. -- The present system of taxing capital gains

realized by foreigners has contributed to the view that investment in the United States is something which should be approached cautiously because of the possibility of inadvertently becoming subject to tax. The Internal Revenue Code now provides for a general exemption from capital gains tax for nonresident foreigners not doing business in the United States with two exceptions. First, the foreigner's gains are subject to U. S. capital gains tax if he is physically present in the United States when the gain is realized, and second, all gains during the year are taxable if he spends 90 days or more in the United States during that year.

The physical presence restriction can be easily avoided by the experienced foreign investor if he arranges to be outside the country when the gain is realized, but is a potential trap to the foreigner who is not aware of its existence. The bill would eliminate this restriction from the general capital gains exemption.

In addition, the bill would extend the 90-day period which a foreigner may spend here without being subject to capital gains tax to 183 days. This will make the provision more consistent with international standards governing the taxation of foreigners residing in a country for a substantial period. It will also minimize a foreigner's fear that he will be taxed on capital gains realized at the beginning of a taxable year if he later spends a substantial amount of time in the United States during that year.

Graduated Income Tax Rates. -- At the present time, foreign individuals not doing business in the United States who derive more than $21,200 of investment income from U. S. sources are subject to regular U. S. income tax graduated rates on that income and are required to file returns. (Below that figure a flat 30 percent rate applies.) These requirements have produced little revenue, in part because we have eliminated graduated rate taxation of investment income in almost all of our treaties with the other industrialized countries and in part because of the relative ease with which this provision is avoided. However, the possibility of being subjected to graduated rate taxation and the accompanying return requirement may be a source of concern to foreigners and consequently act as a substantial deterrent to foreign investment in the United States.

H. R. 13103 eliminates this form of taxation of nonresident foreigners not doing business here and removes the requirement for filing returns in such cases. The liability of foreign investors deriving U. S. investment income would thus be limited to the tax withheld at the statutory 30 percent rate or a lower applicable treaty rate. The legislation would continue graduated rate taxation for foreigners who are doing business in the United States. These rules are consistent with the practices of most other industrialized countries.

Definition of "Engaged in Trade or Business". -- H. R. 13103 makes clear that nonresident alien individuals or foreign corporations

are not engaged in trade or business in the United States -- and thus are subject to tax at the 30 percent withholding rate or lower treaty rate rather than at regular graduated rates -- because of investment activities here or because they have granted a discretionary investment power to a U. S. banker, broker or adviser. This provision should have the effect of removing much of the uncertainty which now surrounds the question of what amounts to engaging in trade or business in the United States. Uncertainty of this type is undesirable as a matter of tax policy and has the effect of limiting foreign investment in the United States. Many foreigners do not desire to invest in U. S. stocks if they cannot give a U. S. bank or broker discretionary authority to act for them.

The bill also changes present law by giving foreign individuals and foreign corporations an election to compute their income from real property on a net income basis at regular U. S. rates rather than at the 30 percent withholding rate or lower treaty rate on gross income. This type of treatment is common in the tax treaties to which the United States is a party and is designed to deal with the problem which arises from the fact that the expenses of operating real property (e.g., taxes, interest, depreciation) may be high and cannot be taken as deductions if the recipient of the income from such real property is not engaged in trade or business in the United States. It is sometimes difficult for a foreigner to determine whether his U. S. real estate activities constitute engaging in trade or business

in the United States. Thus, taxation at higher graduated rates on a net basis, i.e., after allowable deductions, frequently results in a lower tax liability than taxation at a 30 percent rate (or lower treaty rate) on gross income without any allowance for deductions.

Segregation of Investment and Business Income. -- Under present law, if a foreign individual is doing business in the United States he is subject to tax on all of his U. S. income, whether or not connected with his business operations, at regular graduated rates. H. R. 13103 would separate the business income of a foreign individual engaged in business here from his investment income (e.g., dividends, interest, royalties), and would tax the investment income at the 30 percent statutory withholding rate or at the lower appropriate treaty rate. All business income would remain subject to tax at graduated rates.

With respect to foreign corporations doing business in the United States (so-called resident foreign corporations), which also have investments here, H. R. 13103 would likewise separate the investment income from the business income of the foreign corporation. Under the legislation, a resident foreign corporation deriving such investment income from the United States would thus be taxable on such income at the statutory 30 percent rate or at the lower applicable treaty rate.

The bill conforms our treatment of investment income to the general approach followed by many other nations. It also is in accord

with the Organization for Economic Co-operation and Development Model Income Tax Convention and the approach followed in our more recent treaties with the United Kingdom, Germany and the Netherlands, and thus has the advantage of conformity to international practice.

The bill offers guidelines, which are supplemented by the legislative history, to the application of the "effectively connected" concept. A foreigner who is receiving investment income from the United States, under the approach of the bill would no longer have to be concerned that some other activity in the United States will suddenly be considered as attributing to him a trade or business status in the United States, thus subjecting the investment income to business taxation. Instead, as long as the investment income is not effectively connected with the other activity, any uncertainty as to the status of the latter would not color or affect the investment income. The removal of such uncertainty should encourage investments by foreigners in the United States.

As a result of the above-described changes, the foreign corporation engaged in business in the United States and also receiving dividend income would no longer automatically receive on those dividends the deduction now afforded under the Internal Revenue Code to dividends received by one corporation from another corporation. The elimination of the dividends received deduction in certain cases as respects resident foreign corporations is in part designed to end an abuse which has developed. Frequently, a foreign corporation with stock investments in

the United States engages in trade or business here in some minor way and then claims the dividends received deduction on its stock investments -- which results in the taxpayer paying tax at a rate of only 7.2 percent on the dividends (48 percent corporate tax on 15 percent of the dividends). Thus, such a corporation ends up paying far less than the 30 percent statutory or applicable treaty rate on its U. S. dividends, even though its position as respects its investment income is basically the same as a corporation which is not doing business here but which also derives investment income from the United States. In those cases where the applicable treaty rate is 5 percent (the rate set by certain treaties where subsidiary dividends are involved), the resident foreign corporation will benefit from this proposed change. Where the treaty rate is more than 7.2 percent and the dividend income is not effectively connected, the higher treaty rate will govern.

Taxation of Foreign Source Income of Certain Foreigners

The House noted that under present law certain foreigners can conduct business activities within the United States and not pay any tax to the United States (or frequently any other country) on the income derived from such activities. This is in contrast with the tax rules of other countries, which under comparable circumstances would tax active businesses with similar activities in their countries. To give the United States a parity of tax jurisdiction, and also to prevent the United States from being used in some cases as a kind of "tax haven" country because of the absence of that jurisdiction, the bill provides for the U. S. taxation of four limited kinds of income which are

attributable to the conduct within the United States of a trade or business by a foreigner, even though the technical source of such income under our Code rules is foreign. Under the circumstances covered, this provision is consistent with economic realities in attributing the profits to the U. S. business, and is in accordance with the practice of many member countries of the OECD.

The bill provides that such limited kinds of foreign source income of foreigners can be subject to U.S. tax only if the foreigner has an office or other fixed place of business within the United States to which such income is attributable. Thus, for example, under the bill a U. S. tax would be imposed where a U. S. branch of a foreign enterprise imports goods from abroad, solicits, negotiates and performs other activities required in arranging the sale of such goods, and then resells the goods in the United States. Today the transaction may not be taxed by the United States if the sale is considered to take place outside the United States in view of the passage of title outside the United States (and it may not be taxed by the country of residence of the taxpayer if it does not tax its residents on income arising outside that country under the source rules of that country). In accordance with this tax treatment, the bill allows a foreigner whose foreign source income is so taxed in the United States a foreign tax credit for creditable foreign taxes paid on such foreign source income if the foreign tax is levied on the basis of source jurisdiction by the foreign country.

<u>Personal Holding Companies and "Second Dividend Tax"</u>. -- H. R. 13103

changes the personal holding company provisions of the Internal Revenue Code as applied to the U. S. investment income of foreign corporations and also modifies the application of the so-called "second dividend tax". Under the bill, foreign corporations owned entirely by foreigners would be exempt from the personal holding company tax as respects their U. S. income. This is desirable because of the elimination of graduated rates as applied to individual foreigners which is contained elsewhere in the bill, and which makes the application of the personal holding company provisions to corporations wholly-owned by foreigners no longer appropriate since a withholding tax on its income has already been collected.

Under the bill, the "second dividend tax" (which under present law is levied on dividends distributed by a foreign corporation to its shareholders (whether foreigners or U. S. citizens) if the corporation derives 50 percent or more of its gross income from the United States) would be applied only to the dividend distributions of foreign corporations doing business in the United States which derive 80 percent or more of their business income from their U. S. business. It is desirable to retain this part of the tax to cover those cases where a resident foreign corporation has the great bulk of its business operations in the United States, so as to treat dividends of such a corporation as being from U. S. sources.

These changes should have the effect of eliminating application of the personal holding company tax and "second dividend tax" in many cases where they now apply, and where they may now act as a deterrent to

foreign investment.

Bank Deposits. -- Under present law, interest on deposits with U. S. banks paid to foreigners not doing business within the United States is not subject to U. S. income tax and the deposit is not subject to estate tax. This is an exception to the general rule which subjects to U. S. income tax all interest paid by residents of the United States, corporate or individual. The House saw from the standpoint of tax equity no basis for such an exception but, because of balance of payments considerations, deferred the repeal of this bank deposit interest income tax exception until 1972. The repeal of the bank deposit estate tax exemption will become effective for decedents dying after the date of the enactment of the bill.

Where the interest is paid on a deposit of a foreigner in a foreign branch of a U. S. bank, the House liberalized the present bank deposit rule by providing that interest from such deposits with foreign branches of U. S. banks shall no longer be subject to U. S. tax except under limited circumstances. Under present law such interest income is subject to income tax when received by foreigners engaged in business within the United States; and subject to U. S. estate tax in the hands of nonresidents not citizens.

Estate Tax. -- It is generally felt that our current system of taxing the U. S. estates (involving only the U. S. assets) of foreign decedents is inequitable and constitutes a significant barrier in our tax laws to increasing foreign investment in U. S. corporate securities.

Under present law, a foreign decedent is taxable at regular U. S. estate tax rates, ranging up to 77 percent, on U. S. property held at death. Moreover, the U. S. estates of foreign decedents are entitled only to a $2,000 exemption compared with a $60,000 exemption available to U. S. citizen decedents. In addition, foreign decedents are not entitled to the marital deduction available to U. S. citizen decedents. As a consequence, a foreign decedent's estate must pay far heavier estate taxes on its U. S. assets than would the estate of a U. S. citizen owning the same assets. Moreover, U. S. estate tax rates applied to nonresidents are in most cases considerably higher than those of other countries and therefore foreigners who invest in the United States suffer an estate tax burden.

H. R. 13103 would increase the exemption for the U. S. estates of foreign decedents from $2,000 to $30,000 and would tax such estates on the basis of a 5 to 25 percent rate schedule. With this significant increase in the exemption and sharp reduction in rates, the effective U. S. estate tax rate on foreign decedents would be generally comparable to the effective rate of tax of a U. S. citizen who can utilize the $60,000 exemption and the marital deduction. This effective rate would no longer be considerably higher than most other countries, and would be more closely comparable to the rates prevailing elsewhere.

This change should have an important effect on foreigners contemplating investment in U. S. securities. Where the gross U. S.

estate would be less than $30,000, there would be no estate tax, and no need to file an estate tax return. In those instances where the estate is larger, the effective rates would be substantially reduced. Thus, the top rate would drop from 77 percent to 25 percent, and the effective rates would be only 3 percent on a U. S. estate of $100,000 (the present effective rate is 17 percent), 7 percent on a U. S. estate of $500,000 (the present effective rate is 26 percent), 10 percent on a U. S. estate of $1,000,000 (the present effective rate is 29 percent) and 18 percent on a U. S. estate of $5,000,000 (the present effective rate is 43 percent).

Expatriate American Citizens. -- The provisions of H. R. 13103 which eliminate graduated income tax rates for foreign individuals and substantially reduce the estate tax liability of foreign decedents may create a substantial tax incentive to U. S. citizens who might wish to surrender their citizenship in order to take advantage of these changes in the law. While it is doubtful whether there are many who would be willing to take such a step, still the incentive would be present and might be utilized. In 1936 when the Congress eliminated graduated rates of tax on the U. S. income of former citizens, this action was reversed within one year because it was believed that this change had provided an incentive for expatriation to avoid tax. H. R. 13103 deals with this problem by providing that in the future an individual who has surrendered his U. S. citizenship for tax reasons within a preceding 5-year period shall be subject to U. S. taxation with respect

to his U. S. income and assets at the rates applicable to U. S. citizens. Such individuals will therefore not receive the benefits of this legislation during such 5-year period but will be taxed substantially as nonresident foreigners are at present. These provisions will not apply unless the avoidance of U. S. taxes was one of the principal reasons for his surrender of citizenship.

Retaining Treaty Bargaining Position. -- By unilaterally making the changes applicable to foreigners provided in H. R. 13103, the United States could be placed at a considerable disadvantage in negotiating similar rules in other countries for Americans with income from foreign sources. In order, therefore, to protect the bargaining position of the United States in international tax treaty negotiations, H. R. 13103 authorizes the President, where he determines such action to be in the public interest, to reapply present law to the residents of any foreign country which he finds has not acted to provide our citizens with substantially the same benefits for investment in that country as those enjoyed by its citizens on their investments in the United States as a result of this legislation. If this authority were invoked, it could be limited to those investment situations as to which U. S. citizens were not being given comparable treatment. This provision of the bill is patterned on provisions presently contained in the Internal Revenue Code which attempt to assure U. S. persons appropriate tax treatment by foreign countries, e.g., section 891 which provides for doubling of U. S. rates on foreigners under certain circumstances; section 901(b)(3) which denies a foreign tax credit to alien residents of the United States

unless a similar credit is allowed U. S. persons by their home countries. We believe that the presence of such a provision will be a material aid in our securing appropriate provisions respecting these matters in our international tax treaties.

In addition to the comments I have made on the existing bill I wish to recommend to the Committee two amendments which will further the purpose of this proposed legislation.

The first of these would clarify the tax exemption on income from investments held by foreign central banks in securities or other obligations issued or guaranteed by the various agencies of the United States Government. The present language of section 895 of the Code which provides for tax exemption on income received by foreign central banks on "obligations of the United States" leaves in doubt the status of some obligations of Federal agencies other than those of the Treasury. Interest in such investments has been shown by various central banks and it is clearly desirable to provide the broadest possible spectrum of investment possibilities in the United States in order to attract and hold foreign dollars which otherwise might be converted into gold. Also from the standpoint of marketing such issues it is in our interest to broaden the market by making them attractive to this type of large investor.

The second amendment would expand the authority of the Secretary of the Treasury to issue foreign-currency-denominated securities in

the same range of maturities and interest rates as is authorized for regular dollar issues and in a manner which could benefit our balance of payments. The present legislation permits the sale of such foreign-currency-denominated issues only in the form of bonds and certificates of indebtedness whereas regular dollar issues may be offered in the form of certificates, bonds and notes. Offerings in the one to five-year maturity range are in the form of notes. The ability to issue notes in the foreign currency series of securities will make it possible for us to offer an attractive investment in the medium term range of maturities since interest could be paid at rates comparable to that on regular U. S. issues of similar maturity. I, therefore, propose that the word "notes" be added to the present language of section 16 of the second Liberty Bond Act of 1917, as amended.

The Treasury Department also recommends certain amendments to the bill developed jointly by our staff and the staff of the Joint Committee on Internal Revenue Taxation. These proposals are described in a printed pamphlet entitled "Summary of House Bill and Suggested Technical Amendments" prepared for your use by these staffs, and therefore I will not describe them now.

Conclusion

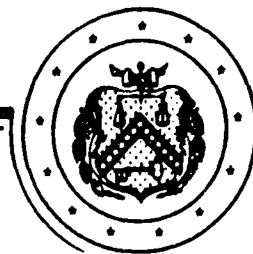
Our current system of taxing foreign investors in the United States contains elements which are inconsistent with generally accepted

international tax policy principles and which, at the same time, act to discourage foreign investment in the United States. H. R. 13103 is designed to reshape our present system in order to make it a more rational and equitable vehicle for taxing foreign individuals and corporations.

The legislation is an important element of the President's comprehensive program for dealing with our balance of payments problem. Foreigners will invest in this country as long as our economy remains prosperous and stable. However, it cannot be expected that the level of foreign investment will reach its full potential so long as provisions exist in our tax laws which, while serving no sound tax purpose, discourage foreign investors. H. R. 13103 will eliminate or modify these provisions and provide an up-to-date system of taxing foreigners which is in accord with international tax standards.

Adoption of H. R. 13103 will lead to a simpler, more rational and more equitable method of taxing foreigners. It will also be an important step in improving our balance of payments deficit and the strengthening of the international position of the dollar. Because this legislation will contribute to these two vital national objectives, I urge you to support it.

TREASURY DEPARTMENT



WASHINGTON. D.C.

:EASE 6:30 P.M.,
, August 8, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

ıe Treasury Department announced that the tenders for two series of Treasury bills, ries to be an additional issue of the bills dated May 12, 1966, and the other series lated August 11, 1966, which were offered on August 3, 1966, were opened at the l Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the ries are as follows:

)F ACCEPTED [TIVE BIDS:	91-day Treasury bills maturing November 10, 1966		:	182-day Treasury bills maturing February 9, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
igh	98.791 a/	4.783%	:	97.462 b/	5.020%
w	98.775	4.846%	:	97.425	5.093%
erage	98.780	4.826% 1/	:	97.447	5.050% 1/

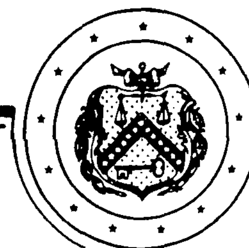
Excepting one tender of $20,000; b/ Excepting 2 tenders totaling $1,400,000
% of the amount of 91-day bills bid for at the low price was accepted
% of the amount of 182-day bills bid for at the low price was accepted

:ENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ict	Applied For	Accepted	:	Applied For	Accepted
n	$ 23,540,000	$ 13,540,000	:	$ 5,928,000	$ 5,928,000
ork	1,602,222,000	879,482,000	:	1,131,197,000	691,377,000
delphia	32,463,000	20,463,000	:	14,369,000	5,869,000
land	34,[illegible],000	33,931,000	:	23,696,000	23,696,000
ond	26,624,000	26,204,000	:	14,543,000	14,543,000
ta	51,432,000	27,486,000	:	44,352,000	34,352,000
go	175,909,000	130,718,000	:	154,618,000	104,618,000
ouis	51,139,000	38,139,000	:	23,003,000	19,503,000
apolis	20,052,000	19,842,000	:	10,978,000	10,978,000
s City	30,634,000	29,634,000	:	15,402,000	15,402,000
s	25,068,000	17,858,000	:	13,545,000	13,545,000
rancisco	93,085,000	62,960,000	:	108,228,000	60,228,000
TOTALS	$2,166,399,000	$1,300,257,000 c/		$1,559,859,000	$1,000,039,000 d/

ıdes $262,502,000 noncompetitive tenders accepted at the average price of 98.780
ıdes $123,024,000 noncompetitive tenders accepted at the average price of 97.447
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 91-day bills, and 5.25% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 9, 1966

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN JULY

During July 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 $60,287,500.00

oOo

F-572

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

WEDNESDAY, AUGUST 10, 1966 F-573

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1966, to July 30, 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 July 30, 1966
Buttons	510,000	Gross	248,827
Cigars	120,000,000	Number	5,573,240
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	4,959,454
Tobacco	3,900,000	Pound	2,167,277

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
WEDNESDAY, AUGUST 10, 1966

F-574

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 - August 8, 1966

Country of Origin	Established Quota	Imports	Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-	Honduras	752	-
Peru	247,952	181,062	Paraguay	871	-
India and Pakistan	2,003,483	-	Colombia	124	-
China	1,370,791	-	Iraq	195	-
Mexico	8,883,259	1,542,372	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.

Staple Length	Allocation	Imports Year ended July 31, 1966	Imports Aug. 1, 1966 to Aug. 8, 1966
1-3/8" or more	39,590,778	39,590,778	15,504,969
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	265,286	105,626
1-1/8" or more and under			

COTTON WASTES
(In pounds)

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

Country of Origin	Established TOTAL QUOTA	Total Imports Sept. 20, 1965, to Aug. 8, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965 to Aug. 8, 1966
United Kingdom............	4,323,457	78,062	1,441,152	78,062
Canada....................	239,690	58,381	-	-
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	11,765	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U.S..	-	-	-	-
	5,482,509	148,208	1,599,886	78,062

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

WEDNESDAY, AUGUST 10, 1966

F-575

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and milled wheat products authorized to be entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, and provided for in the Tariff Schedules of the United States, for the 12 months commencing May 29, 1966, as follows:

Country of Origin	Wheat		Milled wheat products	
	Established Quota	Imports May 29, 1966, Aug. 8, 1966	Established Quota	Imports May 29, 1966, Aug. 8, 1966
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	735,668	3,815,000	3,815,000
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
Other foreign countries or areas	-	-	-	-
	800,000	735,668	4,000,000	3,815,000

TREASURY DEPARTMENT
Washington

IEDIATE RELEASE

DNESDAY, AUGUST 10, 1966

F-576

The Bureau of Customs announced today preliminary figures on imports for isumption of the following commodities from the beginning of the respective ota periods through July 30, 1966:

Commodity	Period and Quantity		Unit of Quantity	Imports as of July 30, 1966
iff-Rate Quotas:				
am, fresh or sour	Calendar year	1,500,000	Gallon	918,557
le Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	-
tle, 700 lbs. or more each other than dairy cows) ...	July 1, 1966 - Sept. 30, 1966	120,000	Head	4,732
tle, less than 200 lbs. ach	12 mos. from April 1, 1966	200,000	Head	90,899
h, fresh or frozen, filleted, etc., cod, haddock, ake, pollock, cusk, and osefish	Calendar year	23,591,432	Pound	Quota filled 1/
a Fish	Calendar year	65,662,200	Pound	34,368,944
e or Irish potatoes:				
ertified seed	12 mos. from	114,000,000	Pound	82,034,916
her	Sept. 15, 1965	45,000,000	Pound	31,618,044
es, forks, and spoons th stainless steel ndles	Nov. 1, 1965 - Oct. 31, 1966	84,000,000	Pieces	Quota filled
kbrooms	Calendar year	1,380,000	Number	1,283,340 2/
r brooms	Calendar year	2,460,000	Number	2,409,474 2/

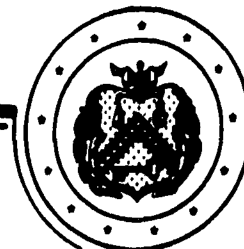
Imports for consumption at the quota rate are limited to 17,693,574 pounds during the first 9 months of the calendar year.

Imports as of August 6, 1966.

Commodity	Period and Quantity		Unit of Quantity	Imports as of July 30, 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	1,201,825
	12 mos. from August 1, 1966	1,709,000	Pound	29,250 1/

1/ Imports as of August 5, 1966.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 10, 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 August 18, 1966, in the amount of $2,301,257,000, as follows:

91-day bills (to maturity date) to be issued August 18, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated May 19,1966, and to mature November 17,1966, originally issued in the amount of $1,000,501,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated August 18,1966, and to mature February 16, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 15,1966. 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-577

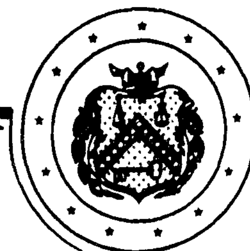
Immediately after the closing hour, tenders will be opened at th Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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 ust be made or completed at the Federal Reserve Bank on August 18, 966, in cash or other immediately available funds or in a like face mount of Treasury bills maturing August 18,1966. Cash and excha ge tend 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 hereund need incl [illegible] ncome tax return only the difference between the price [illegible] ch 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 th return is made, as ordinary gain or loss.

Treasury Department Circular No. 418 (current revision) and t 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.
August 10, 1966

FOR RELEASE MORNING NEWSPAPERS
THURSDAY, AUGUST 11, 1966

TREASURY ANNOUNCES POLICY ON INTERNAL REVENUE SERVICE RULINGS ON CERTAIN STATE AND LOCAL BOND ISSUES

Secretary of the Treasury Henry H. Fowler today announced that the Internal Revenue Service will not issue rulings on the Federal tax status of interest on certain state and local governmental obligations.

The transactions in question are those in which states or their subdivisions issue tax free obligations with the principal object of using the funds thus obtained to invest in taxable securities, usually Federal Government issues, that pay higher interest than do the state and local securities.

The purpose of this type of transaction is to gain for the state and local governments the "arbitrage profits" that result from the spread of interest rates on the taxable Federal obligations and the tax exempt state and local obligations.

This ruling policy will continue in effect pending the conclusion of a study by the Internal Revenue Service to determine whether such state and local obligations are, in reality, tax exempt obligations of states or their political subdivisions, within the meaning of the Internal Revenue Code of 1954.

At the White House Conference for State Legislative Leaders on June 16, 1966, Secretary Fowler said:

> "The Federal Government is sympathetic with the need of States and municipalities to meet their financial problems. But we cannot condone extension of the tax exemption to these new financial arrangements . . . at the expense of the nation's taxpayers."

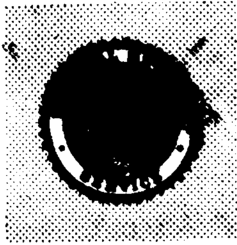
And he added that --

> "I hope no one will be misled into thinking that we are launching an attack on the basic interest exemption for state and local borrowing. Quite the contrary, curtailment of uses which cannot be condoned is a condition necessary for preservation of the exemption for its intended use."

The accompanying technical information release issued by the Internal Revenue Service describes the transactions in question in more detail.

oOo

Attachment



U. S. TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE
PUBLIC INFORMATION DIVISION
202- WORTH 4-4021

TECHNICAL INFORMATION RELEASE

TIR-840

FOR RELEASE
Thursday, August 11, 1966

The U. S. Internal Revenue Service today announced details of its policy of declining to issue rulings that the interest on certain obligations is exempt from Federal income taxation under Section 103 of the Internal Revenue Code of 1954.

The policy will continue in effect, pending the conclusion of a study to determine whether such obligations should be considered obligations of States, Territories, possessions, their political subdivisions or the District of Columbia. The study will be directed at obligations issued by these governmental units where a principal purpose is to invest the proceeds of the tax-exempt obligations in taxable obligations, generally United States Government securities, bearing a higher interest yield. The profit received by the governmental units on the difference between the interest paid on the exempt obligations and the interest earned on the taxable obligations is in the nature of arbitrage. The study will not affect obligations issued prior to the date of this release.

More specifically, this ruling policy will apply to obligations falling within either of the following two categories:

1. Where all or a substantial part of the proceeds of the issue (other than normal contingency reserves such as debt service reserves) are only to be invested in taxable obligations which are, in turn, to be held as security for the retirement of the obligations of the governmental unit.

2. Where the proceeds of the issue are to be used to refund outstanding obligations which are first callable more than five years in the future, and in the interim, are to be invested in taxable obligations held as security for the satisfaction of either the current issue or the issue to be refunded.

The following are examples of transactions with respect to which no ruling will be issued:

First, a State may issue obligations and invest the entire proceeds in United States bonds with similar maturities bearing a higher interest yield. The United States bonds are then placed in escrow to secure payments of interest and principal on the State obligations. The profit on the interest spread accrues to the State over the period of time that these obligations are outstanding.

(More)

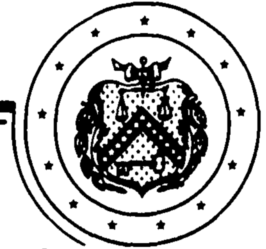
Second, a municipality may immediately realize the present value of the arbitrage profits to be derived over the future by casting the transaction in the following form: It may issue obligations in the amount of $100 million, use $20 million to build schools or for some other governmental purpose, and invest the balance, $80 million, in United States bonds which bear a higher interest yield. The United States bonds are escrowed to secure payment of interest and principal on the municipal obligations. The interest differential is sufficiently large so that the interest and principal received from the United States bonds are sufficient to pay the interest on the municipal obligations as well as to retire them at maturity.

Third, a municipality may issue obligations for the stated purpose of refunding outstanding obligations first callable more than five years in the future. During the interim before the outstanding obligations are redeemed the proceeds of the advance refunding issue are invested in United States bonds bearing a higher interest yield, and such bonds are escrowed as security for the payment of either of the issues of municipal obligations. During that interim period, arbitrage profits based on the interest spread inure to the municipality.

The Service made clear that this announcement covers only obligations falling within the two categories described above. Thus, for example, it does not cover an issue of obligations where the proceeds are intended to be used to construct a facility even though the proceeds are initially placed in a trust for the security of the bond holders, and invested in taxable obligations, pending their use to meet the construction costs as they occur. Nor does it cover an issue of obligations merely because a portion of the proceeds is invested in taxable obligations and held solely to meet interest payments on the obligations pending the availability of other revenues.

# # #

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 10, 1966

IMMEDIATE RELEASE

TREASURY ANNOUNCES NO FURTHER
$2 BILLS WILL BE PRINTED

The Treasury Department announced today that no further $2 United States notes will be printed, because a lack of public demand indicates that this note serves only a limited public interest.

As of June 30, 1966, the $2 currency outstanding amounted to $139,321,994, approximately one-third of 1 percent of the total currency outstanding. Most of the $2 notes issued lie for long periods unused in bank vaults. Because the $2 bill is not circulated freely, the average life of each $2 bill is about six years, compared to the $1 and $5 bills which wear out in 18 to 20 months. Movement of the $2 bills out of inventory has been so slow that none has been made since the end of Fiscal Year 1965 (June 30, 1965).

Existing stocks of the new $2 United States notes will be issued, and $2 bills returned to Federal Reserve Banks in a condition fit for continued circulation will be recirculated as long as the current supply lasts.

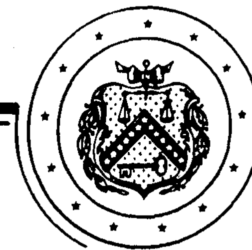
Appropriations for the current fiscal year did not provide funds for printing $2 United States notes, and the Treasury has no plans to seek funds for this purpose in the Fiscal Year 1968 budget.

The $2 bill has a long history. On June 25, 1776, the Continental Congress authorized the issuance of $2 million in bills of credit for the defense of America." Under this authority, 49,000 bills in the $2 denomination were issued.

During the Civil War, an Act of Congress of July 11, 1862, permitted issuance of $2 notes, as United States currency.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 11, 1966

:MMEDIATE RELEASE

TREASURY OFFERS $2 BILLION IN MARCH TAX BILLS

The Treasury Department, by this public notice, invites tenders for '0,000,000, or thereabouts, of 208-day Treasury bills, to be issued discount basis under competitive and noncompetitive bidding as nafter provided. The bills of this series will be designated Tax ipation Series, they will be dated August 26, 1966, and they will e March 22, 1967. They will be accepted at face value in payment come taxes due on March 15, 1967, and to the extent they are not nted for this purpose the face amount of these bills will be pay- without interest at maturity. Taxpayers desiring to apply these in payment of March 15, 1967, income taxes have the privilege of ndering them to any Federal Reserve Bank or Branch or to the Office e Treasurer of the United States, Washington, not more than fifteen before March 15, 1967, and receiving receipts therefor showing the amount of the bills so surrendered. These receipts may be submitted eu of the bills on or before March 15, 1967, to the District Director :ernal Revenue for the District in which such taxes are payable. ills will be issued in bearer form only, and in denominations of), $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 :ity value).

'enders will be received at Federal Reserve Banks and Branches up to osing hour, one-thirty p.m., Eastern Daylight Saving time, Thursday, 18, 1966. Tenders will not be received at the Treasury Depart- Washington. Each tender must be for an even multiple of $1,000, the case of competitive tenders the price offered must be expressed basis of 100, with not more than three decimals, e.g., 99.925. ons may not be used. It is urged that tenders be made on the d forms and forwarded in the special envelopes which will be sup- by Federal Reserve Banks or Branches on application therefor.

anking Institutions generally may submit tenders for account of ers provided the names of the customers are set forth in such s. Others than banking institutions will not be permitted to tenders except for their own account. Tenders will be received : deposit from incorporated banks and trust companies and from sible and recognized dealers in investment securities. Tenders :hers must be accompanied by payment of 2 percent of the face of Treasury bills applied for, unless the tenders are accompanied :xpress guaranty of payment by an incorporated bank or trust

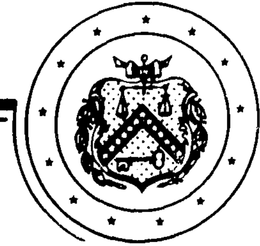
All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Thursday, August 18 1966.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 26, 1966, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to an amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Tresury 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 by obtained from any Federal Reserve Bank or Branch.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 11, 1966

IMMEDIATE RELEASE

TREASURY OFFERS $1 BILLION IN APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for
00,000,000, or thereabouts, of 238-day Treasury bills, to be issued
discount basis under competitive and noncompetitive bidding as
inafter provided. The bills of this series will be designated Tax
cipation Series, they will be dated August 26, 1966, and they will
re April 21, 1967. They will be accepted at face value in payment
ncome taxes due on April 15, 1967, and to the extent they are not
ented for this purpose the face amount of these bills will be pay-
without interest at maturity. Taxpayers desiring to apply these
s in payment of April 15, 1967, income taxes have the privilege of
endering them to any Federal Reserve Bank or Branch or to the Office
e Treasurer of the United States, Washington, not more than fifteen
before April 15, 1967, and receiving receipts therefor showing the face
t of the bills so surrendered. These receipts may be submitted in
of the bills on or before April 15, 1967, to the District Director
ternal Revenue for the District in which such taxes are payable. The
will be issued in bearer form only, and in denominations of $1,000,
0, $10,000, $50,000, $100,000, $500,000, and $1,000,000, (maturity
).

Tenders will be received at Federal Reserve Banks and Branches up to
losing hour, one-thirty p.m., Eastern Daylight Saving time,
day, August 18, 1966. Tenders will not be received at the Treasury
tment, Washington. Each tender must be for an even multiple of
0, and in the case of competitive tenders the price offered must be
ssed on the basis of 100, with not more than three decimals, e.g.,
5. Fractions may not be used. It is urged that tenders be made on
rinted forms and forwarded in the special envelopes which will be
ied by Federal Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of
ners provided the names of the customers are set forth in such
rs. Others than banking institutions will not be permitted to sub-
enders except for their own account. Tenders will be received with-
eposit from incorporated banks and trust companies and from
sible and recognized dealers in investment securities. Tenders from
must be accompanied by payment of 2 percent of the face amount of
ry bills applied for, unless the tenders are accompanied by an
s guaranty of payment by an incorporated bank or trust company.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Thursday, August 18, 1966.

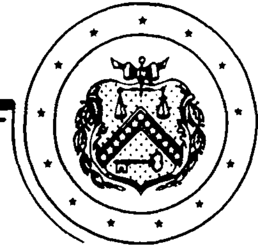
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on August 26, 1966, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purposes of taxation the amount of discount at which Treasury bills are originally sold by the United States is considered to be interest. Under Sections 454 (b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of, and such bills are excluded from consideration as captial 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.

F-581

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 11, 1966

FOR IMMEDIATE RELEASE

TREASURY OFFERING OF TAX ANTICIPATION BILLS

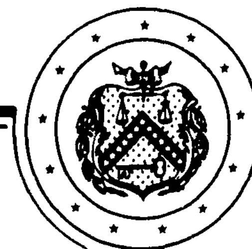
The Treasury announced plans today to meet the first part of its cash needs for the current half-year period with the sale of $3 billion of tax anticipation bills. The sale will include $2 billion of tax anticipation bills maturing next March and $1 billion of tax anticipation bills maturing next April. These bills will be sold by competitive bidding on August 18 for payment August 26. Banks will be permitted to pay for their accepted tenders by 100 percent tax and loan account credit.

The Treasury noted that the current borrowing is expected to provide for cash needs until late in October. The Treasury also noted that remaining cash needs in this calendar year would probably be met with the sale of additional April tax bills and June tax bills.

oOo

F-582

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 11, 1966

FOR IMMEDIATE RELEASE

Treasury Secretary Henry H. Fowler announced today that David C. Mulford, who for the past year has worked in the Treasury Department as a White House Fellow will leave the Treasury on August 12.

After a trip to Africa in September, Mr. Mulford plans to join the investment banking firm of White, Weld and Company in New York.

Mr. Mulford served his Fellowship as an assistant to the Under Secretary of Treasury, Joseph W. Barr, beginning in October, 1965.

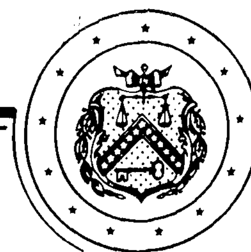
Mr. Mulford is 29. He was born at Rockford, Illinois. He is a graduate of Lawrence College, Appleton, Wisconsin, and was formerly a specialist in African affairs. He holds graduate degrees from Boston University's African Studies Centre and from Oxford University in England, where he earned a Ph.D. He has held a number of academic fellowships and is the author of two books on Zambia.

Mr. Mulford is married to the former Astrida Akmentins of Appleton, Wisconsin. They have two sons. The Mulfords will live at 9 Pierrepont Street, Brooklyn, New York.

oOo

F-583

TREASURY DEPARTMENT



WASHINGTON, D.C.

R IMMEDIATE RELEASE August 12, 1966

SUBSCRIPTION FIGURES FOR CURRENT REFUNDING

The results of the Treasury's current exchange offering of 5-1/4% certificates indebtedness dated August 15, 1966, maturing August 15, 1967, and 5-1/4% notes ted August 15, 1966, maturing May 15, 1971, open to holders of $14,893 million of curities maturing on August 15 and November 15, 1966, are summarized in the tables low. Total subscriptions amount to $10,123 million, including $8,452 million in change for securities maturing August 15, leaving $684 million, or 7.5%, of such curities for cash redemption.

Federal Reserve District	Exchanged for the 5-1/4% Ctfs., A-1967	Exchanged for the 5-1/4% Notes, A-1971
Boston	$ 48,047,000	$ 122,018,000
New York	5,019,630,000	2,583,673,000
Philadelphia	28,210,000	102,268,000
Cleveland	80,800,000	200,545,000
Richmond	60,748,000	78,217,000
Atlanta	61,672,000	133,207,000
Chicago	168,397,000	453,874,000
St. Louis	95,777,000	151,210,000
Minneapolis	43,902,000	73,086,000
Kansas City	64,383,000	131,107,000
Dallas	62,374,000	73,390,000
San Francisco	128,673,000	136,002,000
Treasury	8,191,000	13,870,000
Total	$5,870,804,000	$4,252,467,000

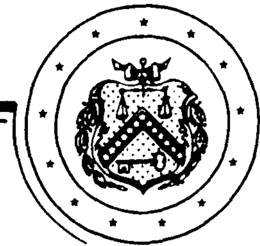
SUMMARY OF AMOUNT AND NUMBER OF SUBSCRIPTIONS BY INVESTOR CLASS
(Dollar amounts in millions)

	5-1/4% Certificates A-1967		5-1/4% Notes A-1971		Total	
	Amount	No. Sub.	Amount	No. Sub.	Amount	No. Sub.
ividuals 1/	$ 79	2,821	$ 119	6,872	$ 198	9,693
nercial Banks Own account)	741	2,268	1,664	8,470	2,405	10,738
others	620	1,316	950	3,044	1,570	4,360
Totals	$ 1,440	6,405	$2,733	18,386	$4,173	24,791
ral Reserve Banks id Government Accts.	4,431		1,519		5,950	
Grand Totals	$5,871		$4,252		$10,123	

ncludes partnerships and personal trust accounts.

F-584

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 12, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON BULK, CRUDE, UNDRIED SOLAR SALT
UNDER THE ANTIDUMPING ACT

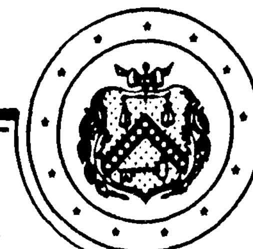
The Treasury Department has determined that bulk, crude, undried solar salt from Mexico, manufactured by Cia Exportadora de Sal, Baja California, Mexico, is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. A "Notice of Tentative Determination," was published in the Federal Register on April 19, 1966.

The merchandise under consideration is used for industrial purposes such as water purification.

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

Imports of the involved merchandise received during the period April 15, 1965, through June 30, 1966, were valued at approximately $950,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

EASE 6:30 P.M.,
, August 15, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

e Treasury Department announced that the tenders for two series of Treasury bills,
ies to be an additional issue of the bills dated May 19, 1966, and the other series
lated August 18, 1966, which were offered on August 10, 1966, were opened at the
Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of
bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the
ies are as follows:

F ACCEPTED TIVE BIDS:	91-day Treasury bills maturing November 17, 1966		:	182-day Treasury bills maturing February 16, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
gh	98.737 a/	4.996%	:	97.340 b/	5.262%
w	98.710	5.103%	:	97.286	5.368%
erage	98.724	5.048% 1/	:	97.313	5.315% 1/

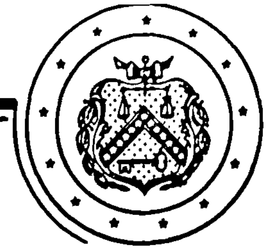
' Excepting 2 tenders totaling $1,800,000; b/ Excepting 4 tenders totaling $702,000
% of the amount of 91-day bills bid for at the low price was accepted
% of the amount of 182-day bills bid for at the low price was accepted

ENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ict	Applied For	Accepted	:	Applied For	Accepted
n	$ 24,590,000	$ 14,590,000	:	$ 5,179,000	$ 5,179,000
ork	1,523,112,000	857,412,000	:	1,299,206,000	710,786,000
delphia	33,793,000	21,793,000	:	14,163,000	7,743,000
land	31,656,000	31,656,000	:	25,461,000	25,461,000
ond	18,035,000	18,035,000	:	5,590,000	5,590,000
ta	47,714,000	44,714,000	:	34,630,000	34,630,000
go	188,535,000	146,835,000	:	163,833,000	113,833,000
uis	42,756,000	32,756,000	:	19,491,000	12,991,000
polis	17,543,000	17,543,000	:	10,940,000	10,940,000
City	37,112,000	37,112,000	:	21,275,000	21,275,000
	19,101,000	14,431,000	:	12,780,000	8,780,000
ancisco	80,691,000	63,331,000	:	92,814,000	42,814,000
TOTALS	$2,064,638,000	$1,300,208,000 c/		$1,705,362,000	$1,000,022,000 d/

des $267,065,000 noncompetitive tenders accepted at the average price of 98.724
des $122,882,000 noncompetitive tenders accepted at the average price of 97.313
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 91-day bills, and 5.54% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 16, 1966

UNITED STATES DEPOSITS ITS INSTRUMENT OF RATIFICATION OF THE ASIAN DEVELOPMENT BANK

The United States today deposited its instrument of atification of the Asian Development Bank, at United Nations eadquarters in New York City.

The instrument of United States ratification of the new egional development bank was presented to the United Nations n ceremonies in which Arthur J. Goldberg, United States mbassador to the U.N., and Joseph W. Barr, Under Secretary of he Treasury, participated. Mr. Barr represented Treasury ecretary Henry H. Fowler, appointed by President Johnson as nited States Governor of the Asian Development Bank.

The United States was among 22 countries that signed the harter of the Asian Development Bank in Manila last December, ight months after President Johnson gave his support to Asian uggestions that it be created.

The President named Under Secretary Barr, and Eugene Black, pecial Adviser to the President for South East Asian Development, o head a United States team to work with the U.N.'s Economic ommission for Asia and the Far East in organizing the Bank.

President Johnson sent the Asian Development Bank Bill to ongress early this year. The Congress gave overwhelming approval o United States participation and to the U.S. pledge of $200 illion of the Bank's $1 billion subscribed capital. President ohnson signed the enabling legislation March 16, 1966.

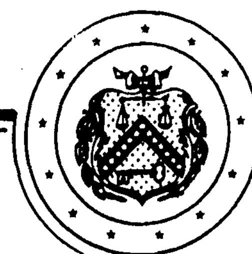
Thirty-one nations have qualified as founding members of the sian Development Bank, 19 of them Asian. The Bank will come nto being when 15 countries, ten of them Asian, have ratified.

It is expected that the required number of countries will eposit instruments of ratification shortly.

The Bank's President will be elected by the Board of Governors t its inaugural meeting scheduled for Tehran October 17 to 19. It expected to open for business at its headquarters in Manila in cember.

o0o

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 16, 1966

PRESS STATEMENT ON PRIME RATE

With respect to the rise today in the prime rate at a New York city bank, Secretary of the Treasury Henry H. Fowler said:

We need to limit credit to help restrain rising prices. But surely there is a better way to limit credit than by simply raising its price.

Since early last December, the prime rate charged by the commercial banks has been increased three times from 4-1/2 percent to 5-3/4 percent, and interest rates in all sectors of the money market have risen substantially. This increase is the fourth. Yet, during this period, the growth of total commercial bank credit, and business loans in particular, has shown little or no tendency to abate. Indeed, business loans climbed faster in the first half of 1966 than in the same period in 1965 -- before the present high levels of interest rates prevailed.

Bank lending practices are determined by the banks, themselves, subject only to the regulations laid down by the monetary and bank supervisory authorities who receive their powers directly from the Congress, and not through the President.

Reliance by the bigger banks on higher interest rates as the only means for allocating credit among a relatively few large borrowers threatens to push up the cost of money again for every borrower. I hope that today's increase in the prime rate does not become the occasion for lenders to raise rates generally.

Raising the price of money should not be the sole means of determining who gets credit. When demands exceed a bank's resources, credit expansion can and should be restrained by bankers saying "no" to borrowers on criteria other than that of who is willing to pay the highest rate.

oOo

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS BY THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
AT CEREMONIES MARKING DEPOSIT
OF THE UNITED STATES' INSTRUMENT OF RATIFICATION
OF THE ASIAN DEVELOPMENT BANK
AT THE UNITED NATIONS, UNITED NATIONS BUILDING
TUESDAY, AUGUST 16, 1966, 10:45 A.M., EDT

On March 16, when President Johnson signed the legislation by which the United States Congress gave its approval to American participation in the Asian Development Bank, the President turned to the Ambassadors of the Asian members of the Bank -- who had been invited to the White House at the President's special request -- and told them:

> "This is a moment in which history and hope meet, and move on from here as partners . . . This Act is an economic Magna Carta . . . This Bank is a symbol that the twain have met, not as Kipling predicted, 'At God's great Judgment Seat, but at the place of men's shared needs."

We are happy, we are proud and we are hopeful as we meet with you today in the United Nations to intrust to your keeping the official instruments by which United States participation in this shining new venture, the Asian Development Bank, is ratified.

We are happy, because we believe in this project.

We are proud, because by this act of ratification we officially join hands with our Asian friends in a venture that was their thought, that is for their purposes and benefits, that they devised, and that we are honored to be permitted to enter.

We are hopeful, because never before in history have Asians, as they do in this Bank, pledged that they will seek their greatest individual good in the greatest possible common progress.

Through that pledge, the magnificent richness and diversity of the Asian cultures can be brought to bear all on one common aim: the development of Asia's great natural resources, and of her untold human talent, for the provision of a better life for Asian peoples, from Iran to the far reaches of the Pacific Ocean.

But we come here in a mood of optimism for the future for other reasons also. The coming into being of the Asian Development Bank is but one -- however important -- of a series of notable developments that have taken place since April, 1965, when President Johnson threw the full weight of the United States behind the proposal of the Asians for this Bank.

The Ministers of Education of South Vietnam, Laos, Malaysia, Singapore and Thailand met late in 1965 with Mr. Eugene Black, President Johnson's Adviser on Southeast Asian Development, who has played a central role in the organization of the Asian Development Bank. At the Bangkok meeting of Asian Education Ministers, plans were laid for making improved and more widely available education the foundation stone upon which economic and social improvement can go forward in Asia.

Out of this has come a suggestion for an Asian Institute of Technology, and other regional centers for the development and teaching of advanced knowledge in such subjects as tropical medicine, agricultural research, science and language teaching. These prospects were considered by more than 100 specialists from Asian countries who met at Kuala Lumpur at the end of July.

The Mekong Development Committee's dreams are advancing to reality. It recently set up a professional staff at Bangkok, and it is actively promoting and coordinating the planning of water resources development projects in the Lower Mekong River Basin. The most recent step in this direction was the Nam Ngum Development Fund to finance a hydroelectric project, for which the United States put up 50 percent of the funds, joined by seven other countries.

The Governors of the Central Banks of Ceylon, Laos, Malaysia, the Philippines, South Vietnam and Thailand have begun to meet together to discuss economic and social development, monetary policy, regional cooperation and the operations of the Asian Development Bank.

Only a few months ago, at the initiative of the Japanese Government, high level representatives of all the countries of Southeast Asia sat down together in Tokyo to discuss their economic development from a regional point of view.

Out of this grew a project carrying an immense cargo of hope: the decision to convene a Southeast Asia Agricultural Development Conference, perhaps as early as this Autumn. This might result in another historic first for Asia: an Agricultural Development Fund to operate in conjunction with the Asian Development Bank.

In June of this year Japan, the Republic of China, Australia, Thailand, South Vietnam, the Philippines, Malaysia, New Zealand, Korea and Laos met in Korea and agreed to establish an Asian and Pacific Council.

I will close this brief summary of the creative awakening that is going on in Asia with mention of two political developments of far reaching importance.

First, India and Pakistan decided last Fall to halt a conflict that could have destroyed their development prospects.

Second, only a few days ago, Indonesia called off its confrontation with Malaysia.

I think all here will agree that these highlights of events in Asia fully justify our view that in the years to come, one of the world's greatest periods of human progress will be seen in Asia.

We believe that the Asian Development Bank has a major role to play in that progress, and that it will play it fully. In doing so, it will have our warm support.

oOo

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT A NEWS CONFERENCE ON THE BALANCE OF PAYMENTS
IN THE SECOND QUARTER OF 1966
WEDNESDAY, AUGUST 17, 1966, AT 2:00 P.M., EDT

Let me begin by saying that we are somewhat encouraged by the preliminary second quarter balance of payments results, and the picture for the first half of this year that has emerged.

Summary

The balance of payments data released by the Commerce Department today show a seasonally adjusted second quarter deficit of $163 million on the "liquidity" basis.

This represents a reduction of $391 million from the first quarter deficit of $554 million.

On the "official settlements" basis, the deficit for the second quarter amounted to $189 million, a reduction of $59 million from the first quarter.

The "liquidity" deficit for the first half ran at an annual rate of $1.4 billion, about equal to last year's deficit of $1.4 billion on a rounded basis. On the official settlements basis, the first half deficit ran at an annual rate of $874 million, compared to last year's deficit of $1.3 billion.

Despite the fact that the balance of payments costs of Vietnam have steadily risen since mid-1965, the deficit on a liquidity basis is only half of what it was before the intensification of our balance of payments program in early 1965. In 1964, as you recall, the deficit was $2.8 billion.

F-587

As I have stated on past occasions, one quarter is too short a period on which to base an assessment of our balance of payments position. That position is a net result of many different types of transactions reflecting many different economic and other factors, both domestic and foreign; and the relative importance of various types of transactions shifts substantially from period to period.

In the balance of this statement I will discuss the principal factors, on which we have information, that affected our payments in the second quarter of this year. Then I will try to answer your questions.

Costs of Vietnam

The Vietnam conflict, of course, continues to have a significant influence on our balance of payments.

The direct deficit on Defense account in all areas abroad ran at an annual rate in the first quarter of 1966 that was about $700-$800 million higher than the annual rate in the first half of 1965. We do not have second quarter figures for the military deficit but there is no reason to believe that it was substantially different than in the first.

The indirect costs of Vietnam, in the form of larger imports and reduced exports, are difficult to measure, but they are undoubtedly substantial. They partly explain the $300 million decline in the second quarter trade surplus.

Trade

Our trade surplus fell from about $1.1 billion in the first quarter to about $800 million in the second quarter.

Exports in the second quarter were slightly below the first quarter level -- and for the first half were only 2.5 percent above the level of the second half of 1965.

Imports rose $260 million in the second quarter. For the entire first half, imports were 8 percent above the second half of last year. I will have some additional comments, on the longer term trade surplus picture, later in this statement.

Capital Transactions

The gain in our balance of payments position in the second quarter is attributable to an improvement in our capital account.

All major categories of private capital flows on which we have information showed improvement except for bank claims on foreigners, where there was a moderate outflow for the first time in five quarters. The principal favorable factors included:

-- Purchases of new foreign security issues were down substantially, from $459 million in the first quarter to $191 million in the second. As I pointed out at my May press conference, the first quarter figures were abnormally high because of Canadian security issues postponed from late 1965 to early 1966.

-- Net liquidations by U. S. residents of outstanding foreign securities came to $78 million in the second quarter compared with $21 million in the first quarter.

-- Flotations of security issues abroad by U. S. corporations amounted to about $290 million in the second quarter, compared to $185 million in the first. Many of these corporations are domestic subsidiaries which have been established for the express purpose of raising money abroad and thus minimizing direct investment outflows from the U. S. We do not yet have figures for direct investment outflows themselves.

-- In addition, there was an unusually high level of foreign purchases of medium term certificates of deposit and U. S. Government agency obligations in the second quarter. In part, this inflow is accounted for by purchases by the World Bank in anticipation of its U. S. bond issue in the third quarter. The inflow also reflects the attractive rates of return offered by these instruments as a result of tighter monetary policy in the U. S.

As you know, the Senate now has under consideration the Foreign Investors Tax Act, which has been passed without opposition by the House of Representatives. This proposed legislation is designed to remove obstacles to foreign portfolio investment in the U. S. When enacted, this legislation will help us to secure further long term foreign investment in the U. S.

This bill, it seems to me, is long overdue. It is one which is designed to deal with the balance of payments problem -- not in an emergency way but as one of the paths to a long term solution of the problem. Above all things, we should be taking those steps that will -- as this Act would -- make use of natural competitive forces to add to our long term balance of payments strength, and reduce our reliance on temporary measures.

The Task Force report was originally made in the Spring of 1964. The House Committee thoroughly considered the bill all last summer, and comments were invited. There were hearings in June of 1965. This bill has been around a good long time. I would certainly hope that for balance of payments reasons, Congress will promptly complete action on this legislation.

German Offset

I pointed out at the May press conference that our receipts under our German military offset arrangements had been running in the third and fourth quarters of 1965 and the first quarter of 1966 at a rate below the quarterly average that would result if these receipts were spread evenly over the eight quarters (from July 1965 through June 1967) covered by the current arrangements. The shortfall of actual receipts in the second quarter of 1966 from the hypothetical quarterly average (there is no formal agreement that the payments be spread evenly in this fashion) amounted to almost $125 million.

The fact that the receipts have been running substantially below the quarterly average for the entire first year of the agreement indicates that they must necessarily come in at a much higher rate in the second year.

Gold Losses

During the second quarter U. S. gold transactions resulted in a net loss of $209 million, bringing total net losses for the first half to $277 million. This compares with net losses of $589 million in the second quarter of last year and $1,421 million in the first six months. Last year's first-half loss reflected sales of $259 million to the International Monetary Fund.

With the exception of France, which is continuing its policy of converting at least $34 million into gold each month, we were net purchasers of gold from other countries in the first half of 1966.

Sales of gold for domestic industrial and artistic uses are continuing to increase and were higher in the first half of this year than the $52 million sold for these purposes during the same period last year.

Additional comments on our trade position

As we look ahead, it is clear that our trade surplus has a key role to play in our efforts to bring our balance of payments into equilibrium. The decline in our surplus -- from the high level of $6.7 billion in 1964 to $4.8 billion last year and an annual rate of a shade less than $4 billion in the first half of 1966 -- is disappointing. Had we had the 1964 trade surplus in 1965, the U. S., all other things remaining unchanged, would have shown a balance of payments surplus of about $500 million, on the liquidity basis. On the same assumption, our liquidity surplus in the first half of 1966 would have run at an annual rate well in excess of $1 billion. But while this decline in our trade surplus has prevented us from moving into equilibrium, it does not necessarily signal any long term deterioration in our basic competitive posture.

I would remind you that our trade surplus has dropped before

-- by $4.3 billion in 1950

-- by $2.8 billion in 1958

-- by $2.3 billion in 1959

But over the long term the trend has been favorable:

	Average trade surplus (in billions)
1951-55	$2.4
1956-60	$3.9
1961-65	$5.3

Why should we anticipate a turn for the better in our trade surplus?

We can anticipate it because of our proven ability to maintain price stability at least comparable to that of our major competitors, and because we are spending vast sums on increased research and development and for investment in cost-cutting facilities here in the United States.

Our record of domestic price stability in the last five years has been the best of the major industrial nations. And I warrant that even this year -- despite the special and temporary impact of Vietnam -- it will be better than many of the industrial nations with whom we must compete.

Chart I, which is attached, highlights the record, showing the annual rate of cost of living increase for the United States compared to that for France, Germany, Italy, United Kingdom and Japan for the periods 1955-60, 1960-65, and 1964-65.

The chart indicates that in the period 1960-65, the United States' cost of living increased by 1.4 percent per annum, Germany's by 3.1 percent, France's by 4 percent, the United Kingdom's by 4 percent, Italy's by 5.5 percent, and Japan's by 7 percent.

To enhance further the competitive position of U. S. industry, corporations will this year invest more in research and in new plant and equipment than in any year in history. Research outlays will total $14 billion, and investment in plant and equipment is expected to amount to $60 billion, compared to $52 billion in 1965 and an average of $38 billion the previous five years. This high level

of investment is having an adverse present impact on our trade balance;

- -- by contributing to the strain on present resources, thus reducing the resources available for export; and

- -- by adding to the demand for imports.

But the high level of investment will ultimately provide an arsenal of modern low-cost facilities. These will enable the United States to compete more effectively both in export markets and in the domestic market against foreign imports. We shall, of course, continue to compete on a fair basis, without resort to restrictive practices.

Obviously we cannot be complacent about our trade picture. We here in the Government are devoting many hours to considering how we might best help the business community in its export efforts.

- -- In recent weeks, the Treasury has announced a revision of IRS guidelines for intra-company pricing and income allocation which we believe will clarify and simplify regulations affecting exports from U. S. companies to their foreign affiliates.

- -- Consideration is being given to how our overseas personnel can be more effectively organized to help U. S. exporters.

- -- We are working to make sure that our aid-tying techniques are effective in producing exports that <u>are truly additional</u> and that do not merely substitute for commercial exports we would have made in any event.

- -- The Export-Import Bank has already taken a number of steps, including some recommended by the National Export Expansion Council, in order to assure continued maximum effectiveness of its lending facilities.

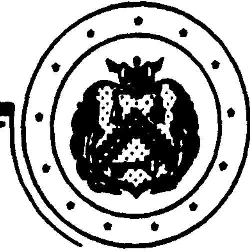
I am pleased to announce today that the Export-Import Bank will inaugurate a special rediscount facility for export paper. This new facility should provide additional liquidity to commercial banks in a manner enabling them better to serve exporters' financing needs. Mr. Harold Linder, the distinguished Chairman of the Export-Import Bank, will announce this important development at the conclusion of my responses and take your questions concerning it.

We hope and believe that these actions, coupled with other, earlier steps, will serve to re-emphasize to the private sector the importance we attach to an intensified national export effort. But this is not the end of our efforts on the government side. We are going to search and pursue every opportunity and possibility to realize an important and lasting improvement in our trade position. The potential effects of such an improvement on our international payments position should be clear to all.

This is the background against which we must now move ahead into the second stage of negotiations on international monetary reform. We must build on the bases of agreement reached by the Group of Ten Deputies and on the work of the International Monetary Fund, broadening the negotiations -- in accordance with the recommendations of the Ministers and Governors of the Group of Ten at the recent meeting at The Hague -- into a wider framework in which questions affecting the economy of the world as a whole can be considered and resolved.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 17, 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 August 25, 1966, in the amount of $2,302,459,000, as follows:

92-day bills (to maturity date) to be issued August 25, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated May 26, 1966, and to mature November 25, 1966, originally issued in the amount of $1,000,484,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated August 25, 1966, and to mature February 23, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, August 22, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

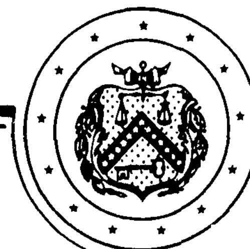
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 25, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 25, 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 18, 1966

FOR USE AFTER 6 P.M.
EDT THURSDAY, AUGUST 18, 1966

U. S. DRAWING FROM
THE INTERNATIONAL MONETARY FUND

Secretary of the Treasury, Henry H. Fowler, today announced a U.S. drawing of $250 million equivalent of Italian lire from the International Monetary Fund and a further series of technical drawings on the Fund of $100 million in Canadian dollars.

The Italian lira drawing represents an ordinary, non-technical use of U. S. drawing rights on the Monetary Fund. During the course of the year Italy has been running a substantial balance of payments surplus, and in order to help finance this surplus as well as U. S. International payments the United States requested a drawing of lire from the Fund. To meet the U.S. request, the Fund, whose regular lira holdings are at a low level, arranged to borrow from Italy the lire needed for the U.S. drawing.

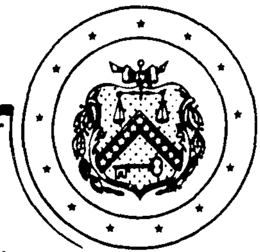
This transaction which is of mutual benefit to the United States and Italy, demonstrates the flexible manner in which the Fund can assist reserve currency countries as well as other countries in financing their balance of payments surpluses and deficits.

The $100 million equivalent technical drawing of Canadian dollars represents a continuation of the practice begun in February 1964 of obtaining currencies for sale to other countries making repayments to the Fund. As in the last two technical drawings, the arrangements for this one provide for periodic take downs over the next three to four months.

F-589

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 18, 1966

BACKGROUND TO ANNOUNCEMENT OF UNITED STATES
NON-TECHNICAL AND TECHNICAL DRAWINGS FROM
THE INTERNATIONAL MONETARY FUND

A non-technical, regular drawing on the IMF, such as the one in Lire announced today, provides the United States with foreign exchange for use in directly financing our international payments position.

A technical drawing from the Fund, on the other hand, provides the United States with foreign currency for use in sales to countries making repayments to the IMF.

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 rules (75 percent of the U. S. quota in the Fund). A technical drawing, thus, enables the U. S. to avoid purchases of gold from us for use as repayments to the Fund. It also avoids sales of dollars to surplus countries (who would be in a position to use the dollars to buy gold from us), for the purpose of using the currencies received to repay the IMF.

The foreign exchange proceeds of a regular drawing on the IMF can be used by the United States in three ways:

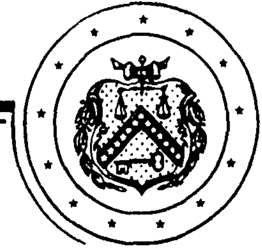
1. for exchange market operations;
2. to repay short-term credits such as swap drawings; or
3. to reduce foreign dollar holdings directly.

The transaction in lire announced today represents the second such non-technical use of the IMF by the United States. In July 1955 we drew $300 million in five European currencies and used the proceeds to pay off short-term swap drawings and otherwise reduce official holdings of dollars abroad.

The Italian lire and Canadian dollar drawings will bring our total drawings from the International Monetary Fund to $1,610 million. However, because of dollar drawings by other countries, our repayment obligation will amount to only about $980 million after these transactions. The remaining virtually automatic portion ~~of our drawing~~ rights (the gold tranche) will amount to about $300 million.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 18, 1966

FOR IMMEDIATE RELEASE

TREASURY REFUNDS ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for $1,000,000,000, or thereabouts, of 365-day Treasury bills, for cash and in exchange for Treasury bills maturing August 31, 1966, in the amount of $1,000,277,000, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated August 31, 1966, and will mature August 31, 1967, when the face amount will be payable without interest. They will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Thursday, August 25, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that these bills will run for 365 days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

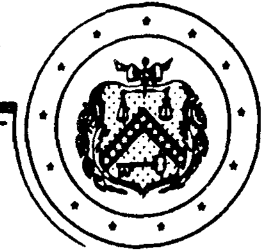
F-590

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 express reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on August 31, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 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 Section 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.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
:sday, August 18, 1966.

RESULTS OF TREASURY'S OFFERING OF $3 BILLION TAX ANTICIPATION BILLS

The Treasury Department announced that the tenders for the two series of Treasury Anticipation bills, each series to be dated August 26, 1966, which were offered on st 11, 1966, were opened at the Federal Reserve Banks today. Tenders were invited $2,000,000,000, or thereabouts, of 208-day bills and for $1,000,000,000, or there-ts, of 238-day bills. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	208-day Tax Anticipation bills maturing March 22, 1967		:	238-day Tax Anticipation bills maturing April 21, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.013 a/	5.170%	:	96.542 b/	5.231%
Low	96.875	5.409%	:	96.364	5.500%
Average	96.916	5.338% 1/	:	96.408	5.433% 1/

a/ Excepting 2 tenders totaling $300,000; b/ Excepting 1 tender of $1,860,000
94 percent of the amount of 208-day bills bid for at the low price was accepted
35 percent of the amount of 238-day bills bid for at the low price was accepted

; TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 193,300,000	$ 178,300,000	:	$ 66,400,000	$ 63,400,000
r York	1,071,347,000	495,847,000	:	694,477,000	393,177,000
ladelphia	119,843,000	115,343,000	:	22,196,000	18,896,000
veland	201,945,000	165,585,000	:	20,143,000	13,493,000
hmond	50,007,000	35,507,000	:	28,370,000	28,370,000
anta	146,605,000	136,545,000	:	40,251,000	39,751,000
cago	365,733,000	259,733,000	:	190,811,000	160,611,000
Louis	76,975,000	71,975,000	:	41,535,000	36,285,000
neapolis	108,080,000	91,280,000	:	52,152,000	44,302,000
sas City	53,836,000	51,436,000	:	34,420,000	34,420,000
las	128,120,000	68,120,000	:	43,920,000	33,790,000
Francisco	428,600,000	330,600,000	:	252,820,000	134,320,000
TOTALS	$2,944,391,000	$2,000,271,000 c/		$1,487,495,000	$1,000,815,000 d/

:ludes $302,841,000 noncompetitive tenders accepted at the average price of 96.916
:ludes $155,925,000 noncompetitive tenders accepted at the average price of 96.408
se rates are on a bank discount basis. The equivalent coupon issue yields are
7% for the 208-day bills, and 5.68% for the 238-day bills.

STATEMENT BY THE HONORABLE FRED BURTON SMITH
GENERAL COUNSEL OF THE TREASURY
BEFORE THE COMMITTEE ON UN-AMERICAN ACTIVITIES
HOUSE OF REPRESENTATIVES
MONDAY, AUGUST 22, 1966

Mr. Chairman and Members of the Committee:

I am very glad to appear before you today to comment on H.R. 12047 which amends the Internal Security Act of 1950. You have also requested testimony concerning any actions the Treasury Department has taken relative to, or any communication that it has received from, any individuals or groups in the United States which have sent, or attempted to send, financial remittances or goods to North or South Viet Nam for the National Liberation Front of South Viet Nam, the National Liberation Front of South Viet Nam Red Cross, or any other agent or agency of North Viet Nam.

First, I will comment on H.R. 12047. Section 402(a) of the bill would provide criminal penalties for certain acts connected with the collection of funds and property intended for delivery to any hostile foreign power or agency, or national thereof, or any person acting in hostile opposition to the Armed Forces of the United States.

Most of the acts that would be covered by this section insofar as existing hostilities are concerned are already covered by Section 5(b) of the Trading with the Enemy Act and the Treasury's Foreign Assets Control and Cuban Assets Control Regulations issued thereunder. Thus, anyone who might give to any hostile foreign power, or agency or national thereof,

or to any organization, group or person, acting in hostile opposition to the armed forces of the United States, or give to another for delivery to such an entity, any property, supplies or thing, or any money or thing of value for the purchase thereof, without a license from the Treasury Department, would be in violation of the Trading with the Enemy Act. Punishment for such violation is a maximum of 10 years' imprisonment, $10,000 fine, or both. The only thing in Section 402(a) that is not covered by the Trading with the Enemy Act and Treasury regulations is the advising, counseling, urging or solicitation of such gifts.

As to the first part, the actual giving, delivery, or remitting of money or property to hostile entities, since it is adequately covered by existing legislation and regulations, we feel that enactment of the provisions of Section 402(a) is unnecessary. As to the second part, the advising, counseling, urging and solicitation of gifts of money or property, and whether these should be the subject of prohibition in a criminal statute, I do not think the Treasury has any special competence to express a view. It is noted that the Justice Department feels that some of these activities may be covered by the Foreign Agents' Registration Act. Certainly, I should say that I personally am revolted by the conduct of some of our citizens, particularly students and some of their mentors on the faculties of some of our outstanding universities, in advocating assistance to foreign powers and groups who are engaged in warfare endangering the lives of members of our armed forces. I am therefore entirely sympathetic with the motives which underlie the

sponsorship of this legislation. I do feel, however, that to extend the scope of existing law to cover such matters as advocacy and solicitation might involve difficult questions of infringement upon the constitutional rights of our citizens in the areas of freedom of speech, freedom of thought, etc. Moreover, we are inclined to think that undue publicity has given an exaggerated impression of the proportion of our citizenry who hold and advocate these reprehensible views. Finally, we are inclined to believe that the aid actually received by these hostile groups in the form of money or property is minimal. For all of these reasons, we have serious doubts as to the wisdom of attempting to legislate further in this area.

There is one further factor that I should like to mention. Undoubtedly there are a certain number of persons in the United States who out of humanitarian motives would wish to contribute to the relief of civilians who are injured due to the conduct of hostilities, whether or not citizens of North or South Viet Nam, and regardless of their allegiance. The proposed legislation does not clearly distinguish between this group on the one hand and those groups which are motivated by a desire to help a hostile power in the conduct of its activities against the United States and South Vietnamese forces. I do not believe that we should make it a crime for persons to solicit funds for assistance based on these humanitarian motives. For this reason, I believe that in the development of any legislation governing solicitations, care should be taken to draw a proper distinction.

In this connection, it may be of interest to this Committee to know that in certain types of cases the State Department advocates, and the Treasury Department is prepared to license, the transmittal of funds or property for these purposes under strictly controlled conditions.

In order to assure that such donations are used for humanitarian purposes, they must be made through the auspices of the International Committee of the Red Cross. Further, in order to make certain that donations are used where they will be of maximum benefit to the victims of war, the International Committee of the Red Cross must be left free to use the gift to aid victims of war on either side. Additionally, to avoid making any foreign exchange available to North Viet Nam or the Viet Cong, the International Committee of the Red Cross must be asked to purchase medical supplies or services with the donations received.

This policy has been established in connection with the efforts of the Department of State to assist American military personnel who are prisoners of war in North Viet Nam. A rigid ban against all solicitations of remittances such as is provided in the pending legislation might well interfere with this effort to assist our military people who are captives of North Viet Nam.

Under this policy, we have issued one license authorizing the remittance of $240 to the International Committee of the Red Cross. The licensee is Mary Bernier of the Viet Nam Relief Fund, 1025 Elm Street, San Carlos, California.

We have also received two other inquiries as to the procedure for obtaining Treasury licenses for this purpose. The writers of these inquiries were informed of the policy set forth above and were furnished application forms, but have not to date submitted license applications. The persons were:

Rodgers Taylor Dennen
Box 240, Whitman College
Walla Walls, Washington

Lois Lee Rathbun
830 Calle Cortita
Santa Barbara, California

Turning now to Section 403 of the proposed legislation, that section would provide criminal penalties for any person who interferes with the movement of the armed forces or with the movement of supplies and material for the armed forces. The problem with which this section deals lies within the principal competence of the Department of Defense. Insofar as the functions of the Treasury Department are concerned, this provision is not needed. The only activity of which the Department is aware that has impeded the Coast Guard in the performance of its missions as an armed force concerns interference by members of various organizations with the launching of naval vessels. In this regard, the Coast Guard has authority under the Magnusson Act (50 U.S.C. 191 _et seq_) to promulgate regulations establishing limited access areas in connection with the launching of naval vessels. Penalties for violation are imprisonment for not more than ten years and a fine of not more than $10,000. The Treasury Department defers to the views of the Department of Justice as to the necessity for additional criminal sanctions in this area, since that Department would be primarily responsible for enforcing the provisions of Section 403.

You have also requested that I testify as to actions the Treasury Department has taken relative to persons in the United States who have sent or have attempted to send money or goods to the Viet Cong. In those cases where we have had information that a group intends to send funds or supplies to North Viet Nam or the Viet Cong, we have either by letter or by personal interview placed such groups on notice that the proposed activity was illegal in the absence of a Treasury license. Specifically, we have sent letters to this effect to the Medical Aid Committee, Box 1128, Berkeley, California, and to the Chairman of the Committee to Aid the Viet Namese, c/o the University of Michigan. Copies of these letters were furnished to this Committee with our letter of August 10, 1966. We have also sent this type of letter of warning to other groups not mentioned in the Committee's inquiry of August 1, 1966. These letters were sent to:

Stanford Committee for Medical Aid to Viet Nam
c/o Stanford University
Palo Alto, California

MSU Humanist Society
Creskill, New Jersey

In addition, on October 29, 1965 representatives of the Treasury visited the office of the May Second Movement at 640 Broadway, New York. Two representatives of that group were personally advised of the prohibitions of the Regulations and were requested to convey this information to all branches and members of the May Second Movement.

We subsequently found that, despite our warning, the Medical Aid Committee sent $1,500 to the Liberation Red Cross via Prague. We then blocked this amount in the U.S. accounts of the Czech bank which had received these remittances for the Viet Cong, thereby nullifying the intended foreign exchange benefit to the Viet Cong of the remittances. We were able to deprive the Viet Cong of the benefit of these illegal remittances even though the necessary information was not obtained until some time after the funds were sent. This blocking action demonstrates, we hope, that it is futile under our existing Regulations for any group to send funds to the Viet Cong without our license. Moreover, the blocking of the amount of these illegal remittances in the Czech bank's accounts served to close off a principal remittance channel which would otherwise have been available to groups wishing to send funds to the Viet Cong without our license. The action further served as a warning to other foreign banks not to permit their facilities to be used for such illegal remittances, and as a reminder to American banks of the requirements of the Regulations. The American bank was reprimanded for its negligence in handling these remittances for the Medical Aid Committee. Copies of our correspondence with that West Coast bank were furnished to this Committee with our letter of August 10, 1966.

Similarly, we have just ascertained that a money-broker in Hong Kong named Chin Sing Yap Tong has cashed some dollar checks which had been sent to the North Viet Namese commercial representative in Hong Kong for the Viet Cong. We therefore have named this money-broker as

a designated national. This action makes it illegal for any American to deal with the money-broker. Transactions by foreign banks in United States dollars with this money-broker are likewise prohibited. We are continuing our investigation of money changers in Hong Kong who may be cashing checks for the Viet Cong.

Although we believe such action enables us to prevent any significant foreign exchange benefit to the Viet Cong, it would be difficult if not impossible to completely stop all unlicensed remittances in the absence of wartime censorship controls, and even then some might still escape detection.

On August 10, 1966 the Washington Post carried a report that Quakers in the Washington-Baltimore area were determined to send aid to victims of the fighting in North Viet Nam even though it is illegal to do so. The Quaker representatives on the following day informed the Department of State that they do not wish to do anything illegal, and hope that a license will be granted to permit such humanitarian remittances. They were informed of the licensing policy concerning assistance through the International Committee of the Red Cross, and advised to apply for the necessary Treasury license. They subsequently did so, requesting permission to send up to $1,000 in this fashion. The Quaker application is presently under consideration by the Treasury Department, which is consulting with the Department of State as to whether it should be approved in the national interest. We have also

sent a letter through the Federal Reserve Bank of Richmond to all banks in the area alerting them to the possibility of attempted illegal remittances by the Quakers. The banks were asked to bring any such attempts to our attention.

As I indicated earlier, it is the policy of the Treasury Department to administer these Regulations very strictly in order to prevent any unauthorized foreign exchange accruals to blocked areas. We do not license any such transactions unless there is a clear-cut demonstration that it is in the national interest to do so, as in the example I cited earlier of assisting American prisoners of war.

To sum up, therefore, the Treasury does not favor enactment of H.R. 12047 for the following reasons:

(1) It is unnecessary since adequate authority to control the remittance problem exists and is in full use;

(2) The ban imposed on solicitations is inflexible and could interfere with U.S. efforts to aid our captured military personnel; and,

(3) The Coast Guard has adequate authority to prevent interference with its launchings of vessels.

Thank you for this opportunity to explain the Treasury's views on H.R. 12047.

TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE JOSEPH W. BARR

UNDER SECRETARY OF THE TREASURY

BEFORE THE SENATE FINANCE COMMITTEE

THURSDAY, AUGUST 18, 1966

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to appear before you to present the views of the Treasury Department on the problem of Federal support for political campaign financing. An appropriate solution to this problem is vital to the integrity of political fund raising and to more meaningful participation by the electorate in the political process.

I am not without some personal experience in this whole subject. I served as the treasurer of the Marion County, Indiana, Democratic Central Committee from 1952 to 1956. I served as the treasurer of the Welch for Governor Committee in 1956. I, of course, was subject to the current laws governing political contributions while I served as a Member of the 86th Congress.

It is my personal opinion, and not necessarily the view of the Treasury or of the Administration, that the most dangerous thing an American citizen can do in public life is to act as a treasurer for a political party. One may have the best intentions of the world, but the unreality of present law and the contradictions that it contains literally constitute a beartrap for the most honest of citizens. I will confess that never was I so relieved when the statute of limitations ran on my tenure as treasurer of a political party, in spite of the fact that I

felt at the time that I was performing a service that was necessary to the proper functioning of the election processes of this country.

I have learned that one can be defeated as a Congressman without destroying his reputation or his credit worthiness. A reasonable amount of prudence should keep one from the perils of impeachment while serving as Under Secretary of the Treasury. The occasional disagreements and attacks which are the natural results of public service can be borne. However, the hazards to which an honest and conscientious man exposes himself when he acts as the treasurer of a political party are in my opinion almost unsupportable. Therefore, I speak not only for the Administration but with a great degree of personal prejudice in the hope that something can be done in this extremely important, but extremely difficult area.

For many years it has been recognized that existing Federal laws pertaining to restrictions on, and the disclosure of, political campaign finances have been ineffective. At the same time the soaring costs of campaigns for elective public office have contributed to the circumvention of present limitations. Because substantial campaign expenditures, in this age of mass communications media, are necessary to insure the existence of an informed electorate, it is important that a coordinated solution to both problems be found.

Recognizing the importance of these matters to the basic fabric of a free society, President Johnson, in his State of the Union Message, stated:

> As the process of election becomes more complex and costly, we must make it possible for those without personal wealth to enter public life

without being obligated to a few large contributors.

Therefore I will submit legislation to revise the present unrealistic restrictions on contributions -- to prohibit the endless proliferation of committees, bringing local and state committees under the act -- to attach strong teeth and severe penalties to the requirement of full disclosure of contributions -- and to broaden the participation of the people, through added tax incentives, to stimulate small contributions to the party and to the candidate of their choice.

Pursuant to this pledge, the President submitted to the Congress a proposed Election Reform Act of 1966. This proposed Act would invigorate the laws concerned with the disclosure of political contributions and expenditures as well as the limitations on political contributions. The proposals are designed to obviate the possibility that small groups of affluent men can, by their wealth, achieve undue political influence.

An affirmative approach is also necessary to insure that political parties and candidates will have adequate financial resources derived from large segments of the population. Accordingly, to complement the other proposals contained in the election reform legislation, the President has recommended a tax deduction for political contributions.

This tax incentive serves the primary purpose of encouraging greater public participation in the political process and thereby reducing the dependence of elected public officials on wealthy contributors.

A deduction from gross income, not in excess of $100 per year, would be allowed to individuals for qualified political contributions. This maximum would be $50 in the case of a married individual filing a separate return.

Since the deduction would be available even to those taxpayers who claim the standard deduction, the incentive has a potential effect on all taxpayers, and not only to the 50 percent of taxpayers who itemize their tax deductions. This is consistent with the need to stimulate broad public participation in the political process.

The proposal would apply to contributions made to any organization organized and operated exclusively for the purpose of influencing the election of one or more individuals to any public office, and to any candidate for any elective public office, whether at the Federal, state or local level. Qualified recipients of deductible political contributions would, therefore, cover the spectrum of political office. This approach should foster the full and free discussion of governmental affairs which is basic to a democratic system.

It is estimated that the revenue loss which would result from enactment of this proposal would be approximately $50 million in a Presidential election year, and would average $25 million over a four-year cycle, from one Presidential year to another.

The extent to which this proposal will increase campaign funds cannot be accurately estimated. We believe, however, that the favorable attitude of the government towards political contributions manifested by this proposal will encourage small contributions. It should also encourage political

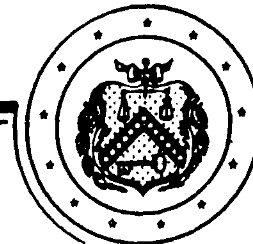
organizations to devote greater efforts on small contribution fund raising.

We recognize that other possible solutions to this problem have been suggested. The distinguished Chairman of this Committee has introduced a bill which would provide funds to political parties for Presidential campaign purposes by direct grants computed on the basis of popular vote. Others have suggested a matching incentive plan under which the government would pay directly to political parties or candidates amounts equivalent to small contributions they receive. These hearings provide an opportunity for public discussion and evaluation of all reasonable proposals. Our goal is a common one -- to provide the best methods possible to achieve the desired results.

I want to make clear that the problem of incentives for political contributions is directly tied to the needed reforms in our obsolete laws dealing with the disclosure of, and the restrictions on, campaign finances. Increased levels of political contributions and greater participation in political affairs, absent necessary safeguards in the public interest, would only intensify the existing problems.

Therefore, we urge the Congress to enact the balanced program set forth in President Johnson's proposed Election Reform Act of 1966.

TREASURY DEPARTMENT



WASHINGTON, D.C.

LEASE 6:30 P.M.,
, August 22, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

ıe Treasury Department announced that the tenders for two series of Treasury bills,
·ies to be an additional issue of the bills dated May 26, 1966, and the other series
lated August 25, 1966, which were offered on August 17, 1966, were opened at the
. Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of
bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the
·ies are as follows:

F ACCEPTED TIVE BIDS:	92-day Treasury bills maturing November 25, 1966		:	182-day Treasury bills maturing February 23, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
gh	98.725	4.989%	:	97.275 a/	5.390%
'	98.708	5.056%	:	97.262	5.416%
ɜrage	98.717	5.020% 1/	:	97.265	5.410% 1/

Excepting 1 tender of $3,000,000
% of the amount of 92-day bills bid for at the low price was accepted
% of the amount of 182-day bills bid for at the low price was accepted

NDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ct	Applied For	Accepted	:	Applied For	Accepted
	$ 20,659,000	$ 10,659,000	:	$ 5,808,000	$ 5,808,000
rk	1,296,206,000	790,556,000	:	1,443,649,000	686,321,000
elphia	28,782,000	16,782,000	:	11,873,000	3,873,000
and	27,773,000	27,773,000	:	25,801,000	13,276,000
ıd	12,409,000	12,409,000	:	11,635,000	10,835,000
ı	35,600,000	30,290,000	:	26,172,000	8,766,000
)	316,887,000	191,066,000	:	276,006,000	156,759,000
ıis	59,564,000	55,564,000	:	39,537,000	10,509,000
olis	17,402,000	17,402,000	:	11,030,000	6,030,000
City	23,912,000	23,912,000	:	14,163,000	13,119,000
	22,999,000	16,789,000	:	13,067,000	8,017,000
ncisco	215,932,000	106,942,000	:	281,233,000	80,327,000
TOTALS	$2,078,125,000	$1,300,144,000 b/		$2,159,974,000	$1,003,640,000 c/

es $235,713,000 noncompetitive tenders accepted at the average price of 98.717
ɜs $119,042,000 noncompetitive tenders accepted at the average price of 97.265
rates are on a bank discount basis. The equivalent coupon issue yields are
for the 92-day bills, and 5.64% for the 182-day bills.

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 23, 1966

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
DARTBOARDS AND DARTGAMES

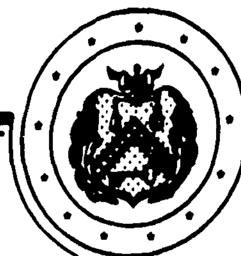
On June 30, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that dartboards and dartgames imported from England are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The information was submitted by Haecker Industries Inc., Philadelphia, Pennsylvania.

Having conducted a summary investigation pursuant to section 14.6(d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing 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 to determine the validity of the information.

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 January 1, 1966, through June 30, 1966, were valued at approximately $150,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 24, 1966

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders 'or two series of Treasury bills to the aggregate amount of ;2,300,000,000, or thereabouts, for cash and in exchange for 'reasury bills maturing September 1, 1966, in the amount of ,2,301,813,000, as follows:

91-day bills (to maturity date) to be issued September 1, 1966, n the amount of $1,300,000,000, or thereabouts, representing an dditional amount of bills dated June 2, 1966, and to ature December 1, 1966, originally issued in the amount of 1,001,308,000, the additional and original bills to be freely nterchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated eptember 1, 1966, and to mature March 2, 1967.

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 naturity value).

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p.m., Eastern Daylight Saving me, Monday, August 29, 1966. Tenders will not be ceived at the Treasury Department, Washington. Each tender must for an even multiple of $1,000, and in the case of competitive nders the price offered must be expressed on the basis of 100, th 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 omit tenders except for their own account. Tenders will be received thout deposit from incorporated banks and trust companies and from sponsible and recognized dealers in investment securities. Tenders om others must be accompanied by payment of 2 percent of the face ount of Treasury bills applied for, unless the tenders are companied by an express guaranty of payment by an incorporated bank trust company.

'-595

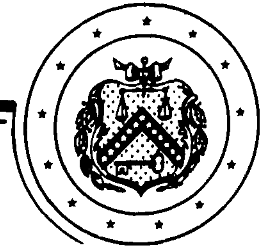
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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 September 1, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 1, 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.

oOo

'REASURY DEPARTMENT



WASHINGTON, D.C.

August 24, 1966

?OR IMMEDIATE RELEASE

GEORGE E. ZEITLIN, LEAVING TREASURY POST AS
DEPUTY TAX LEGISLATIVE COUNSEL, PRESENTED
MERITORIOUS SERVICE AWARD

The Treasury Department's Meritorious Service Award was)resented today to George E. Zeitlin, Deputy Tax Legislative :ounsel, who is resigning to teach at the New York University ;chool of Law.

Mr. Zeitlin, 35, and a native of New York, joined the 'reasury Department in November 1962 as an attorney, ubsequently becoming Assistant and Associate Tax Legislative ounsel before he was named Deputy Tax Legislative Counsel in 965. During nearly four years with the Treasury, he worked on number of important tax developments, including the Revenue ct of 1964, the Tax Adjustment Act of 1966 and administrative evisions in depreciation guidelines in 1964. In addition, as eputy Tax Legislative Counsel, he supervised other attorneys orking on tax matters.

Before joining the Treasury, Mr. Zeitlin was associated or seven years with the New York law firm of Chadbourne, Parke, iiteside and Wolff. A graduate of Columbia College, Columbia iiversity Law School, and the New York University School of aw, Mr. Zeitlin has had considerable experience both in eaching tax law and as a writer on tax matters.

In presenting the Meritorious Service Award to Mr. Zeitlin, ssistant Secretary Surrey praised his "high degree of)mpetence and boundless energy," noting that Mr. Zeitlin's :forts also have been devoted over the past four years to work on ıny of the most difficult Treasury tax regulations.

oOo

tation attached

CITATION

Meritorious Service Award

George E. Zeitlin

In his four years with the Office of Tax Legislative Counsel, George Zeitlin has actively participated in most of the important tax developments during this period, particularly the Revenue Act of 1964, the Tax Adjustment Act of 1966, and the depreciation revisions in 1964. With his high degree of competence and boundless energy, he has been able to combine these projects with work on many of the most difficult Treasury tax Regulations issued over the past four years.

As Deputy Tax Legislative Counsel, he has not only reviewed much of the work of the Office but has also devoted considerable time to successfully training younger attorneys. His breadth of knowledge of the tax laws, quick mind, and willingness to work hard and long have combined to make major contributions to the Office of the Tax Legislative Counsel.

TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE FRED B. SMITH, GENERAL COUNSEL OF THE TREASURY DEPARTMENT BEFORE THE HOUSE COMMITTEE ON VETERANS AFFAIRS, AUGUST 24, 1966 AT 10:00 A.M., EDT.

Mr. Chairman:

It is a pleasure for me to appear before this Committee to testify on H.R. 16557. This bill would authorize the Administrator of Veterans Affairs to refund unearned premiums on national service life insurance erroneously deducted from the arrears in pay paid by the U.S. Government to certain members of the military forces of the Government of the Philippines. The bill would also amend provisions of existing law, providing certain service-connected benefits for a number of Philippine veterans and their survivors, to (1) authorize payments of such benefits at the rate of two pesos for each dollar otherwise authorized and (2) where annual income is a factor in entitlement to benefits, to apply the dollar limitation at the rate of two pesos for each dollar. The rate now applicable in both cases is one peso per dollar.

Since I wish to speak about the balance of payments aspects of this legislation, I would also like to note that this Committee has reported favorably H.R. 16330 which provides for extension and expansion of the program of grants-in-aid to the Philippines for the hospitalization for certain veterans, and H.R. 16367 which extends the benefits of the War Orphans' Educational Assistance Program to the children of certain Philippine veterans.

The Treasury supports the President's objective of finding equitable means of resolving certain inequities and inadequacies

that have developed with respect to Philippine veterans benefits through legislation such as is being considered by this Committee. However, the President has said that he wishes to minimize the adverse effects on our balance of payments of the increased payments to the Philippines resulting from the legislation. Accordingly he asked Secretary of State Rusk and Secretary of the Treasury Fowler to prepare an offset program for discussion with the Philippine government.

The increase in veterans benefits provided by the two bills that this Committe has considered and the one the Committee is now considering, will mean that the U.S. will be spending more dollars in the Philippines in order to buy the pesos needed to pay the increased benefits. Unless mitigation arrangements are agreed on, these increased payments to the Philippines will have a significant immediate adverse effect on our balance of payments, at a time when we are making efforts on all fronts to eliminate our payments deficits. It is estimated that the impact of the three bills would be to raise expenditures in the Philippines by about $17 million in the first year. Thereafter, the increase would taper off slightly, but would contimue for several years into the future at the rate of at least $12 million above current dispersement.

The Treasury Department is discussing with other interested agencies a program for offsetting the balance of payments effect of the increased veterans benefits payments. We believe that this can be done in a way that is mutually beneficial to the U.S. and the Philippines.

In order to give the Committee some perspective on why mitigating arrangements are needed, I would like to spend a few minutes on the present balance of payments situation and on our progress toward eliminating the deficit. Figures announced last Wednesday show that our deficit, on a liquidity basis, for the first half of this year ran at an annual rate of $1.4 billion, about equal to last year's deficit of $1.4 billion. Despite the fact that the balance of payments costs of Viet Nam have steadily risen since mid-1965, the deficit on a liquidity basis is only half of what it was before the intensification of our balance of payments program in early 1965. In 1964 the deficit was $2.8 billion.

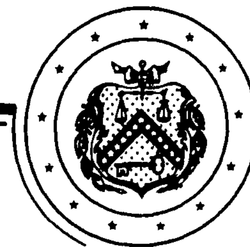
In 1965, in a special message to Congress, the President asked bankers and businessmen to exercise voluntary restraint in lending money or making investment in developed countries. The Federal Reserve Board suggested guidelines to be followed by banks and by non-bank financial institutions in their foreign lending and investment activities and to requests by the Department of Commerce for similar restraints by the business community. This program has received excellent cooperation from bankers and businessmen and has made a substantial contribution toward eliminating our balance of payments deficit.

The Government in its expenditures has also been making every effort to reduce the effects of its overseas expenditures. For instance, the balance of payments effect of our military expenditures overseas was reduced by $1 billion between 1960 and 1965 despite the increased spending in Viet Nam. Similarly, the effects of our foreign economic

assistance on the balance of payments in this period were reduced by $400 million and about 80 percent of our aid expenditures is now tied to the purchase of U.S. goods and services. Many other programs are being implemented and are needed in order to restore balance in our international accounts.

Thus, through the efforts of all our citizens and the Government we have made good progress toward eliminating the balance of payments deficit despite the increased costs resulting from our efforts in Viet Nam. But, a $1.4 billion deficit is still a long way from equilibrium and we must continue to pursue every effort to avoid an adverse effect on our balance of payments as a result of the Government's overseas activities. It is for this reason that the President desires that arrangements be reached on minimizing the balance of payments effect of the three veterans benefit bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 25,1966

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
ALUMINUM SHEATHED COAXIAL CABLE

On August 1, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that aluminum sheathed coaxial cable, also known as insulated electrical conductor cable imported from Canada, manufactured by Canada Wire & Cable Company, Ltd., Toronto, Canada, is being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Pursuant to a determination under section 14.6a of the Customs Regulations, the name of the person who raised or presented the question of dumping is withheld.

Having conducted a summary investigation pursuant to section 14.6(d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing 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 to determine the validity of the information.

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 January 1, 1966, through July 31, 1966, were valued at approximately $220.000.

TREASURY DEPARTMENT
Washington
STATEMENT OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
ON AIRWAYS USER CHARGES
AUGUST 24, 1966 -- 10 A.M. EDT

Mr. Chairman and Members of the Committee:

When the Congress in 1962 repealed the tax on amounts paid for transportation of persons by land and water, it followed President Kennedy's recommendation and retained the tax on transportation of persons by air. This recommendation was part of a proposal by the President for a system of airways user charges to recoup from civilian users of the airways the costs of facilities and services utilized by them. The other parts of the President's proposal were not acted upon in 1962. Today, after our four years of experience with the tax on air passenger tickets, I appear in support of President Johnson's recommendation that further steps be taken to develop an airways user charge system to encompass general aviation and the cargo carrying function of commercial aviation. I use the term "general aviation" to cover those civilian aviation activities other than the carrying for a fee of passengers or cargo.

In money terms, the recommendations with respect to cargo transportation and general aviation are quite minor relative to the monies brought in by the 5 percent ticket tax. But transportation of persons by commercial air carriers is only one aspect of air transportation. We believe that in fairness to all involved, the user charge system should be extended to all civilian users of the airways. Such expansion of the user charge system also would enhance the equity of our tax system by requiring certain airways users to contribute to the cost of airways facilities which now are paid by all taxpayers in general -- most of whom never fly.

The program which we are presenting today is a modification of that recommended by President Johnson in his January Budget Message.

You will remember that the Budget program had five parts. These were: 1) an increase in the ticket tax to 6 percent until January 1, 1969 when it would revert to 5 percent; 2) a 2 percent tax on amounts paid for transportation of property, with an increase to 4 percent as of January 1, 1969; 3) refund of the full 4 cents per gallon tax on gasoline used in planes subject to the taxes on persons or

air cargo; 4) imposition of a tax of 4 cents a gallon on all fuel (jet or gasoline) used in other civilian planes; and 5) transfer from the Highway Trust Fund to the general fund of the revenues from the excise tax on gasoline used in aviation.

By way of explanation, let me state that there is now no tax on jet fuel. Gasoline is taxed initially at 4 cents a gallon, but aviation users, along with other off-highway users, are entitled to a refund of 2 cents a gallon.

The modifications we are proposing are in items 1 and 2 of the original proposal of the President. We now propose that the tax on passenger fares be continued at 5 percent rather than be raised temporarily to 6 percent. As for the cargo tax, we recommend that no provision be made for an automatic increase in 1969 over the 2 percent rate, although some provision should be made for future evaluation of the desirability of an increase.

In dollar terms, the proposals would result in revenues, at fiscal 1967 levels of business, of $212 million compared with $199 million under present law. Details are shown in the table following:

Tax	Present law	Proposal
	(millions)	
Commercial aviation		
Passenger fares, 5%	$186	$186
Gasoline, 2¢ a gallon	6	0
Air cargo charges, 2%	0	8
Total	192	194
General aviation		
Gasoline, 2¢ a gallon now, 4¢ proposed	7	13
Jet fuel, 4¢ a gallon	0	5
Total	7	18
Grand Total	$199	$212

As far as commercial aviation is concerned, the proposed changes would result in practically no increase in current tax liability. But the changes would improve equity in this area. The new tax on jet fuel and the 2 cents a gallon increase in the tax on gasoline used by general aviation also would improve equity as between various types of general aviation operations besides increasing the

contribution of general aviation toward its share of the costs of the airways system. Even so, the increased rates would recoup less than 12 percent of the proportion of airways costs allocable to general aviation.

I might also point out that the table is constructed on the assumption that operators of general aviation planes all apply for the 2 cents a gallon refund now available on their gasoline. We know, as I will show later, that this is incorrect. To the extent that users do not apply for refunds, the increased gasoline tax liability of $6 million shown in the table is an overstatement.

A review of recent growth of the air passenger transportation business convinces us that prior estimates of revenues from the 5 percent tax in the next few years were too low. The now expected higher rate of growth in passenger traffic, together with the proposed tax on air cargo, should bring revenues fairly close to airways costs allocable to commercial aviation. As to a further increase in the tax on air cargo, we are willing to wait and see how this subsidiary part of the air transportation industry develops instead of now recommending a future tax increase.

Full refund to air carriers of the 4 cents a gallon tax on aviation gasoline, rather than only 2 cents a gallon as at present, would equalize the fuel tax position of different carriers. Almost 90 percent of the fuel used today by air carriers is jet fuel. Since the smaller, local carriers have a higher proportion of their fleets in piston-engined planes, these carriers are subject to fuel tax to a much greater degree than the trunk lines with their fleets of new jets.

A fuel tax, in our opinion, however, constitutes the most effective way of increasing general aviation's contribution to its share of the cost of the airways system. Over the years we have reviewed alternative approaches, such as a graduated annual license fee or a charge per hour of operation. Another approach might be to impose specific charges for actual uses of various airways facilities. All of the alternatives, while having certain merits, appear less acceptable than a fuel tax. Some alternatives would require detailed record keeping and policing.

A fuel tax has the advantage of being collected from a smaller number of taxpayers than taxes which would be paid directly by general aviation plane operators -- and there are some 90,000 general aviation planes. Over 45,000 of these are planes used solely for personal, non-business, purposes. A fuel tax also reflects a combination of hours of use of a plane and its size. Thus a light private plane operated a few hours a year uses little fuel relative to a jet executive plane. It is true, of course, that the hours of operation of a plane are not a direct measure of its use of the facilities provided by the airways system. But the more a plane is used, the greater the possibility that it will make direct use of the airways facilities. Furthermore, the mere presence of a plane in the air is one of the reasons we need controls over the use of navigable airspace and the traffic control facilities involved.

Operators of general aviation planes would be affected in different degrees by the proposed 4 cents a gallon tax on all the fuel used by them. Large organizations which are

using jet planes would pay 4 cents a gallon more for their fuel. Since those persons who use gasoline powered planes now pay at least 2 cents a gallon, at least half of the proposed tax on jet fuel is needed to equalize the tax situation of those able to afford jet planes with those using gasoline powered planes. Operators of gasoline powered planes would have to pay 2 cents a gallon more than at present if they currently apply for the 2 cents refund on their gasoline. Most operators of general aviation planes do not apply for the refund.

While we do not now tabulate gasoline refund claims in a manner that enables us to identify claims for airplane use, the validity of the last statement is supported by the figures on total claims for gasoline refunds. In the fiscal year 1965, the Internal Revenue Service paid 28,000 claims for refund of tax on gasoline used off-the-highway, for other than farm use. In addition to airplane operators, these refunds went to such claimants as mass-transit firms, contractors, and motorboat operators. Planes used for general aviation purposes number about 90,000 and over

45,000 of these are planes used for personal flying. Very few of the operators of general aviation planes could have applied for refunds, although operators of some business planes undoubtedly did apply. This apparent lack of interest in the refund is understandable when one notes that the average personal plane operator is entitled to a refund of less than $20 a year.

The final recommendation of the President was that the revenues from the excise tax on gasoline used in aviation be transferred from the Highway Trust Fund to the general fund. Since the other aviation user charges will go to the general fund, aviation gasoline tax revenues also should be placed in the general fund. At current operating levels, Highway Trust Fund revenues would be reduced by $6 million a year by repeal of the tax on gasoline used in commercial aviation -- and less in subsequent years as gasoline use by the airlines declines. The revenue loss from the transfer of the tax on gasoline used by general aviation is estimated at $7 million currently and slightly more as general aviation grows in the future. The latter estimate assumes, however, that general aviation operators all apply for the 2 cents a gallon refund now available.

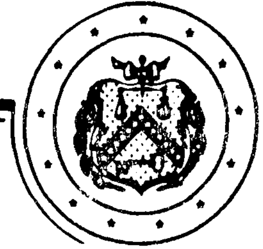
While we believe that we ought to look forward to someday having an aviation user charge system that approaches the highway user charge system in the relationship of user charges to expenditures, we are not recommending any such complete funding system for the airways -- at least not in the foreseeable future. The gap of considerably over $100 million per year between the revenue from general aviation (even as proposed to be increased) and the costs allocated thereto make impossible the relating of airways expenditure to receipts from airways user charges.

While, at least for the moment, it does not appear possible to formulate an airways expenditure program limited to user charge revenues, this does not preclude our working toward a more sufficient and equitable airways user charge system. Currently, we can make a step forward by taxing charges for air cargo transportation to more accurately reflect Federal expenditures benefiting cargo flights. Rail cargo is charged for the cost of the privately owned rail facilities, and truck cargo charges reflect the highway user charge system. As to general

aviation, jet fuel should be taxed merely as a matter of equity as between those using gasoline powered planes and those able to afford the larger and faster jets. An increase in the excise tax on all fuel used in general aviation is sorely needed to recoup even a minor portion of the airways costs justifiably allocable to this category. Every motorist pays his share of Federal highway aid in the form of taxes on gasoline, tires, and lubricating oil. We believe that it is no more than reasonable to work toward a similar contribution as respects the airways by the general aviation group.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

ƆR RELEASE 6:30 P.M.,
hursday, August 25, 1966.

RESULTS OF REFUNDING OF $1 BILLION OF ONE-YEAR BILLS

The Treasury Department announced that the tenders for $1,000,000,000, or ıereabouts, of 365-day Treasury bills to be dated August 31, 1966, and to mature ıgust 31, 1967, which were offered on August 18, were opened at the Federal Reserve ınks today.

The details of this issue are as follows:

Total applied for - $2,236,780,000
Total accepted - 1,000,030,000 (includes $33,047,000 entered on a noncompetitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids: (Excepting one tender of $5,000,000)

High	- 94.110	Equivalent rate of discount approx. 5.809% per annum
Low	- 94.056	" " " " " 5.863% " "
Average	- 94.075	" " " " " 5.844% " " 1/

(74% of the amount bid for at the low price was accepted)

ɘderal Reserve ıstrict	Total Applied For	Total Accepted
ɔston	$ 38,807,000	$ 15,807,000
ɜw York	1,458,549,000	626,749,000
ıiladelphia	16,494,000	1,494,000
leveland	34,161,000	1,861,000
ichmond	1,419,000	1,419,000
:lanta	23,151,000	3,151,000
ıicago	295,508,000	134,708,000
:. Louis	28,283,000	22,183,000
ınneapolis	6,707,000	1,207,000
ınsas City	27,581,000	6,331,000
ıllas	11,262,000	1,262,000
ın Francisco	294,858,000	183,858,000
TOTAL	$2,236,780,000	$1,000,030,000

/ This rate is on a bank discount basis. The equivalent coupon issue yield is 6.20%.

-599

TREASURY DEPARTMENT

WASHINGTON, D.C.

August 25, 1966

FOR USE IN MORNING NEWSPAPERS
OF FRIDAY, AUGUST 26, 1966

NEW DISTRICT DIRECTOR FOR BALTIMORE
NAMED BY U. S. CUSTOMS SERVICE

Assistant Secretary of the Treasury True Davis today announced the appointment of Leslie L. Spiers as District Director for the Baltimore Customs Region III. Mr. Spiers is presently Director of the Portland (Oregon) Customs District. He succeeds John Eugene Kennedy, who retired recently. The appointment is effective on September 1st.

The Baltimore Customs District includes the ports of Annapolis, Cambridge and Crisfield, Maryland, and Washington, D. C. It is under the supervision of the Regional Commissioner of Customs in Baltimore.

The Bureau of Customs, part of the Treasury Department, is headed by U. S. Commissioner of Customs Lester D. Johnson in Washington.

* * * * * * *

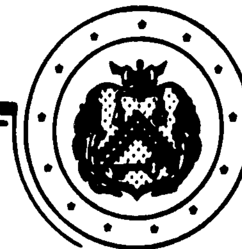
Mr. Spiers was born in Oklahoma in 1906, and was educated at the University of Arizona in Tucson. After service as a railroad clerk, he entered the Customs Bureau as an inspector in 1938. He served as deputy collector, entry officer, liquidator, fiscal accountant and field auditor at Nogales, New Orleans and San Francisco.

Mr. Spiers served with the Navy 1943-45 as a machinist. In 1955 Mr. Spiers became organization and methods examiner in Washington. In 1956 he was named assistant collector of customs at Charleston, South Carolina. In November 1963, he was transferred to Manila as advisor to the Commissioner of Customs for the Phillipines.

oOo

F-600

REASURY DEPARTMENT



WASHINGTON, D.C.

August 29, 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 September 8, 1966, in the amount of 300,532,000, as follows:

91-day bills (to maturity date) to be issued September 8, 1966, :he amount of $1,300,000,000, or thereabouts, representing an .tional amount of bills dated June 9, 1966, and to ıre December 8, 1966, originally issued in the amount of)00,517,000, the additional and original bills to be freely ırchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated :ember 8, 1966, and to mature March 9, 1967.

The bills of both series will be issued on a discount basis under ›etitive and noncompetitive bidding as hereinafter provided, and at ırity 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 ;o the closing hour, one-thirty p.m., Eastern Daylight Saving ;, Friday, September 2, 1966. Tenders will not be ;ived at the Treasury Department, Washington. Each tender must 'or an even multiple of $1,000, and in the case of competitive lers the price offered must be expressed on the basis of 100, ı not more than three decimals, e. g., 99.925. Fractions may not ısed. It is urged that tenders be made on the printed forms and rarded in the special envelopes which will be supplied by Federal ›rve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of ;omers provided the names of the customers are set forth in such lers. Others than banking institutions will not be permitted to ıit tenders except for their own account. Tenders will be received ıout deposit from incorporated banks and trust companies and from ›onsible and recognized dealers in investment securities. Tenders ı others must be accompanied by payment of 2 percent of the face ınt of Treasury bills applied for, unless the tenders are ›mpanied by an express guaranty of payment by an incorporated bank ›rust company.

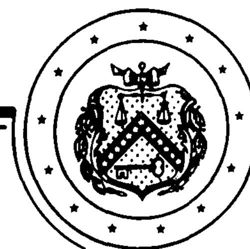
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 8, 1966, in cash or other immediately available funds or in a like face a...... of Treasury bills maturing September 8, 1966. Cash and exchange tenderd will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 29, 1966

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
PIG IRON

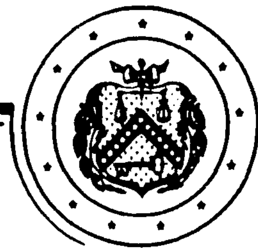
On June 6, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that pig iron imported from East Germany is being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The information was submitted by Congressman Thaddeus J. Dulski of New York, on behalf of the domestic pig iron industry.

Having conducted a summary investigation pursuant to section 14.6(d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing 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 to determine the validity of the information.

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 January 1, 1966, through June 30, 1966, were valued at approximately $800,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

LEASE 6:30 P.M.,
, August 29, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

he Treasury Department announced that the tenders for two series of Treasury bills,
ries to be an additional issue of the bills dated June 2, 1966, and the other series
dated September 1, 1966, which were offered on August 24, 1966, were opened at the
l Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of
bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the
ries are as follows:

OF ACCEPTED ITIVE BIDS:	91-day Treasury bills maturing December 1, 1966		182-day Treasury bills maturing March 2, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
igh	98.726 a/	5.040%	97.208	5.523%
ow	98.704	5.127%	97.154	5.629%
verage	98.714	5.087% 1/	97.186	5.566% 1/

/ Excepting one tender of $2,000,000
4% of the amount of 91-day bills bid for at the low price was accepted
5% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	Applied For	Accepted
ton	$ 23,137,000	$ 13,137,000	$ 7,388,000	$ 7,388,000
York	1,444,868,000	910,758,000	1,320,501,000	708,581,000
ladelphia	30,562,000	18,562,000	13,460,000	5,460,000
reland	26,247,000	26,247,000	24,697,000	14,697,000
mond	11,178,000	11,178,000	4,675,000	4,675,000
nta	35,043,000	30,183,000	25,247,000	19,247,000
cago	268,666,000	133,666,000	261,998,000	111,998,000
Louis	36,526,000	35,526,000	21,612,000	21,612,000
eapolis	19,011,000	19,011,000	12,238,000	12,238,000
sas City	25,650,000	25,650,000	12,547,000	12,547,000
las	26,180,000	18,180,000	13,961,000	10,961,000
Francisco	87,387,000	57,987,000	90,605,000	70,605,000
TOTALS	$2,034,455,000	$1,300,085,000 b/	$1,808,929,000	$1,000,009,000 c/

udes $254,022,000 noncompetitive tenders accepted at the average price of 98.714
udes $122,083,000 noncompetitive tenders accepted at the average price of 97.186
e rates are on a bank discount basis. The equivalent coupon issue yields are
% for the 91-day bills, and 5.81% for the 182-day bills.

TREASURY DEPARTMENT
Washington

STATEMENT OF THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
ON H. R. 15942 AND H. R. 15943
AUGUST 29, 1966 -- 10 A.M. EDT

Mr. Chairman and Members of the Committee:

I appreciate very much this opportunity to appear before your Committee to explain the views of the Treasury Department on H. R. 15942 and H.R. 15943. These identical bills relate to a group of problems which have been of serious concern to Congress before -- the problems generated when tax-exempt organizations borrow money for purposes unrelated to their exempt functions. Those problems were considerably intensified last year by the decision of the Supreme Court in Commissioner v. Clay B. Brown.

For several reasons, the Treasury Department strongly supports these bills, which Chairman Mills and Mr. Byrnes have introduced. To make clear the grounds for our support, let me first describe the Brown case briefly and outline the exempt organization problems which it highlights. With that background, I can then explain how the proposed bills work and why it is our view that, in their continuation of an

approach adopted by Congress in 1950 to deal with one form of exempt organization investment borrowing, they would resolve these problems effectively and fairly, and without impeding the legitimate functions of the organizations to which Congress has accorded the privilege of tax exemption.

The Brown Case

The *Brown* case involved a situation which an exempt organization acquired a sawmill and lumber business by agreeing to pay the former owners a percentage of the future profits of the business until a specified maximum amount had been reached. Making no commitment for payment other than from the assets of the transferred business itself and the income produced by those assets, the exempt organization obtained the business -- valued at $1,300,000 -- without any investment of its own funds. Careful steps were taken to immunize the earnings of the enterprise from the present tax on unrelated business income. The question before the Supreme Court was the tax treatment of the former owners of the business; the exemption of the organization was

not in issue. With three Justices dissenting, the Court held that the former owners were entitled to treat their profits on the transaction as capital gains.

Alarmed by the implications of the decision, the dissenting opinion pointed out that:

> In any realistic sense the Government's grant of a tax exemption was used by the [exempt purchaser] as part of an arrangement that allowed it to buy a business that in fact cost it nothing. I cannot believe that Congress intended such a result..... Unless Congress repairs the damage done by the Court's holding, I should think that charities will soon own a considerable number of closed corporations, the owners of which will see no good reason to continue paying taxes at ordinary income rates....The tax avoidance routes opened by the Court's opinion will surely be used to advantage by the owners of closed corporations and other income-producing assets in order to evade ordinary income taxes and pay at capital gain rates, with a resultant large-scale ownership of private businesses by tax-exempt organizations.

The majority and concurring Justices also referred to the area as one for Congressional action.

Unfortunate Consequences of Exempt Organization Investment Borrowing

The availability of the tax exemption for use in transactions following the *Brown* pattern, and in other arrangements

involving borrowing for investment purposes, has three very unfortunate consequences:

Incentive for Shift of Productive Property to Exempt Sector

First, in any acquisition in which the purchase price is to be financed from the future earnings of the transferred property, tax-exempt organizations are peculiarly suited to pay a substantially higher price -- and pay it more rapidly -- than a taxable purchaser could afford. They can, in effect, make available to the seller the additional business earnings which would have been paid to the government as taxes had the purchaser been taxable. The particular advantage of exempt organizations as purchasers in transactions of this sort has for some time been widely advertised in the tax and business press, and since the Brown decision such advertising has intensified. Several examples are appended to this statement. I draw your attention particularly to a page of the Prentice-Hall Executives Tax Report entitled "Boosting Profits." Asking "Have you Put a Price on Your Business?", the announcement provides an arresting and enticing answer: "You May Be Able to Double It -- By Selling to a Charity."

With the dual attractions to sellers of higher prices and Supreme Court-approved capital gains treatment, it seems quite likely that, unless something is done, a substantial unplanned shift of productive property to the exempt sector of our economy will occur. One result of such a shift would, clearly, be very considerable erosion of the income tax base. Another might well be broad economic and social changes stemming from the ownership of a large number of businesses by organizations with different motives and different objectives than the entrepreneurs who have thus far constituted our business community.

Diversion of Exemption Benefit to Private Parties

A second undesirable result typically attends borrowing by exempt organizations for investment purposes. The price inflation characteristic of *Brown*-type transactions and common in other exempt organization borrowing situations deflects, to the personal benefit of private parties, a substantial portion of the advantage which Congress intended tax exemption to produce for the organizations upon which it conferred the exemption. When sellers obtain the increase

in purchase price made possible by the tax exemption of future earnings, they draw a significant share of the advantage of the exemption to themselves. In effect, the purchasing organization trades temporary use of its exemption for the opportunity to own the property completely in the future. This result has commonly been described as the organization's "selling its exemption."

Exempt Organization Expansion from Within

A third unfortunate consequence follows from exempt organization investment borrowing. This investment borrowing enables an exempt organization to convert its tax exemption into a self-sufficient device for the production of capital. By borrowing, the organization can extend the function of its exemption beyond the protection of income stemming from charitable contributions or membership fees; it can use the exemption to develop funds even where there are no contributions or membership fees. Commentators have referred to this activity as "trading upon" or "capitalizing" the tax exemption. The organization which makes such use of its exemption can sever itself from reliance upon

contributors or members and eliminate the healthful scrutiny of its purposes and activities which that reliance implies. By this extension of its exemption privilege to borrowed assets and this separation from dependence upon contributors or members, the organization begins a multiplication of its holdings which bears no relation to the community's evaluation of its exempt activities; it embarks upon an extension of its economic holdings which is limited only by the financial acumen and commercial skills of its managers. An organization involved several years ago in Tax Court litigation, for example, began with a net worth of $1,000 and -- by means of borrowing -- within five years had increased its holdings to include a 34-acre tract of industrial real property worth $1,150,000. Another organization, formed in 1954 with no funds of its own at all, entered upon a program of investing in oil payments with borrowed money. By 1961 the organization had incurred indebtedness of more than $14 million, and had net income of almost $70,000 a year. Remarkable as they are, these situations are by no means atypical illustrations of the consequences of unrestricted exempt organization borrowing for investment purposes.

Previous Congressional Action

In 1950 Congress recognized the impropriety and danger inherent in such exploitation of the tax-exemption privilege. Concerned with a proliferation of situations in which exempt organizations were purchasing commercial property, leasing it back to the original owners, and utilizing future rents from the property to pay the purchase loan, both this Committee and the Senate Finance Committee stated that:

> [One] objection to the lease-back is that it is altogether conceivable that if its use is not checked, exempt organizations in the not-too-distant future may own the great bulk of the commercial and industrial real estate in the country. This, of course, would lower drastically the rental income included in the corporate and individual income tax bases. The fact that under present law an exempt institution need not use any of its own funds in acquiring property through lease-backs -- borrowed funds may represent 100 percent of the purchase price -- indicates that there is no limit to the property an exempt institution may acquire in this manner. Such acquisitions are not in any way limited by the funds available for investment on the part of the exempt institution. This explains why particular attention should be given to lease-backs which involve the use of borrowed funds. Where an exempt organization uses its own funds, expansion of its property holdings through the lease-back device must necessarily proceed at a much slower pace. (H. Rep. No. 2319, 81st Cong., 2d Sess. 39 (1950), 1950-2 Cum. Bull. 410; S. Rep. No. 2375, 81st Cong., 2d Sess. 31 (1950), 1950-2 Cum. Bull. 506)

To deal with the problem, the Revenue Act of 1950 provided, generally, for taxation of a portion of the rent which certain types of exempt organizations receive from property acquired with borrowed funds. The fundamental approach of this provision (continued without material change as section 514 of the present Internal Revenue Code) was a simple and sound one: Tax exemption should be restricted to earnings arising from the exempt entity's own assets, so as to eliminate the abuses and artificial incentives attendant upon exemption of income produced by borrowed funds.

Despite the essential soundness of its policy, the form which the 1950 Act took has proved to contain several defects. Because the provision was engrafted upon legislation which had the rather different objective of taxing the business activities of exempt organizations -- whether the organization owned them outright or not -- it was made applicable only to those classes of organizations which Congress thought to be then significantly involved in business. As a result, it imposes no restraint whatever upon the abuses which arise when other kinds of exempt organizations borrow

to invest. Again, because the measure was drafted to cope with the particular variety of investment borrowing specifically drawn to the attention of Congress in 1950 -- the leaseback -- it was made applicable only to rental income. It thus affords no solution to the same fundamental problems which exist where the income produced by borrowed funds is realized in the form of royalties, dividends, interest, or capital gains. Finally, even in the area to which it does apply -- even, that is, where the exempt organization is in one of the classes covered by the legislation and where its investment is in rental property -- the 1950 Act has been crippled by the presence of an exception which permits rents from leases whose terms are not longer than five years to be received without tax.

Tax planners have taken full and repeated advantage of these deficiencies of the 1950 legislation. The situation involved in the Brown case typifies a growing body of transactions in which exempt organization have fashioned their acquisitions of productive property to avoid the impact of the provision. Indeed, even before the announcement of the

Supreme Court decision in Brown, more than 30 similar cases -- in which, for one reason or another, the tax imposed under the 1950 Act was, or was claimed to be, inapplicable -- were pending before the courts or the Internal Revenue Service. With the impetus added by Supreme Court approval of capital gains treatment for the sellers, the already well-traveled avenues around the 1950 Act can be expected to become thoroughfares.

Design of Proposed Bills

The proposed bills continue the basic approach of the 1950 provision, but eliminate the deficiencies which experience has demonstrated that provision to possess. The bills impose income tax upon the "unrelated debt-financed income" of all exempt organizations described in sections 401 (a) and 501 (c) of the Internal Revenue Code. Under the bills, income would be subject to tax only if it meets two tests: it would have to be derived from property acquired or improved with borrowed funds, and its production would have to be "unrelated" to the educational, charitable, religious, or other operations constituting the basis of

the organization's tax exemption. Income produced by investments of an organization's own funds would be unaffected by the bills. Further, borrowing by an exempt organization for its exempt purposes -- for example, borrowing by a college to build a dormitory -- would fall beyond the scope of the proposals.

The taxable portion of the unrelated income from any particular property would, in general, be the amount bearing the same ratio to the total income from the property as the amount of the average indebtedness for the year bears to the basis of the property at the end of the year. Deductions would be limited by the same percentage figure. Certain special rules would be employed to prevent avoidance of the tax by shifting deductions from years in which indebtedness is largely or completely discharged to earlier years in which it is high: depreciation, for example, would be limited to the straight-line method.

Generally, during the next five years the new rules would apply only where indebtedness has been incurred after the date of the bills' introduction (June 27, 1966) and only

to income received after the date of enactment. The five-year transition period would afford organizations with previously initiated unrelated borrowing an opportunity to prevent or minimize tax under the new rules by disposing of their acquisitions for fair value, by discharging indebtedness in full with exempt income or other assets, or at least by reducing the amount of outstanding indebtedness. After the transition period, the new rules would become applicable to all situations of exempt organization investment borrowing.

A more detailed explanation of the mechanics of the bills is attached.

What the Bills Do Not Do

To eliminate any possible misunderstanding, I should like to make very plain what the proposed bills do not do. First, they do not have any effect upon the exempt organization which invests only its own funds. They apply only to the organization which borrows -- the organization which is earning money with someone else's funds. Second, they have no effect upon the organization which borrows in

pursuance of its exempt activities. Only the production of income unrelated to those activities results in tax. Third, the bills do not change the rules which Congress enacted in 1950 for the taxation of businesses owned outright by exempt organizations. Those rules, with their present exceptions and exclusions, would remain as they are. Finally, the bills do not single out any one kind of exempt organization and impose a special tax upon it. They apply equally to all categories of organizations exempted under the general exemption section of the Internal Revenue Code.

Tax Treatment of Sellers

In passing, I should like to point out also that the bills do not deal with the Supreme Court's grant of capital gains treatment to the sellers in transactions of the *Brown* type. While extension of capital gains privileges to transfers of the *Brown* pattern may lead to abuses beyond the exempt organization field, the *Brown* transfer has sufficient elements in common with some kinds of ordinary commercial transactions to make it important that care be taken in any

legislative withdrawal of capital gains treatment. Further, the overwhelming majority of transfers in the *Brown* mold have thus far been to exempt organizations, and it may well be that, as a practical matter, adoption of the present bills will obviate the necessity of dealing with the capital gains issue. In view of those facts, and in view of the urgency of attention to the exempt organization problems arising under the *Brown* decision, we have concluded that it would be best to attend now to the primary problem area -- the abuses and pressures produced by exempt organization investment borrowing -- and to subject the future experience of the Internal Revenue Service and the development of the case law to continuing careful scrutiny to determine whether the capital gains problems possess sufficient practical importance to warrant legislative action.

Conclusion

In closing, let me emphasize that the present fortuitous, but very powerful, incentive for the transfer of businesses and other classes of productive property to exempt organizations requires effective and prompt Congressional

action. As I have mentioned, even before the Brown decision gave Supreme Court sanction to the capital gains treatment claimed by the sellers in such arrangements, a considerable number of these transfers had occurred. If Congress does not deal with the problem -- and deal with it quickly -- a great many more will take place. We have, for example, been informed that even in the brief span since the Supreme Court decision one organization has managed to acquire seven separate businesses. Advertisements by exempt organizations in the Wall Street Journal (copies of several of which are appended to this statement) afford another indication of what will come. The proposed bills employ an approach which Congress has already approved in dealing with problems of this character. It is an approach which would have no effect at all upon exempt organizations limiting themselves to use of their own funds -- or even of borrowed funds related to their exempt activities -- and which does no more than place those organizations borrowing for unrelated investment purposes upon the same tax ground as other taxpayers. Because

the need for legislation here is great and the proposed bills are effective, fair and moderate, the Treasury Department strongly recommends that the Ways and Means Committee approve them.

Attachments

Technical Explanation

1. General

H.R. 15942 and 15943 would use the general approach of the statute enacted in 1950 to deal with the leaseback problem (now section 514 of the Internal Revenue Code). Income derived from property acquired or improved with borrowed funds would be taxable if the use of the property is unrelated to the organization's exempt purpose or function. To make as much use as possible of the solution already adopted by Congress, H.R. 15942 and 15943 would integrate this proposed tax into the existing statutory structure. As a result, such basic concepts as the distinction between "related" and "unrelated" activities would be defined by existing law, and the necessity for new and unfamiliar definitions would be reduced.

2. Organizations Subject to Tax

Section 1 of H.R. 15942 and 15943 would amend section 511 (a), which imposes the unrelated business tax, to make the tax apply to all organizations exempt from tax by reason of section 401 (a) and section 501 (c). Section 2 of the bill would expand the definition of "unrelated business taxable income" provided in section 512 to include a new category of unrelated income -- "unrelated debt-financed income." The organizations already subject to the unrelated business tax (e.g., charitable organizations, labor unions) would be taxable both on this category of income and, as at present, on income derived from the active conduct of an unrelated trade or business. The organizations not now subject to the tax (e.g., churches, civic associations, fraternal associations) would be taxable only on the new category of income. This revision would not affect the tax imposed by existing law on unrelated business activities of exempt organizations; its only effect would be to make all exempt organizations taxable on certain debt-financed income.

3. Income Subject to Tax

(a) "Unrelated debt-financed income." While H.R. 15942 and 15943 would apply to income whether or not it is "rent", they would in large part use rules similar to those of the existing leaseback provision in determining what income is to be taxed and in computing how much of it is taxable. Under the new rules, the tax base would be "unrelated debt-financed income". Such income would be the gross income taken into account under the new section 514 (b) with respect to "debt-financed property", less the deductions allowable under the new section 514 (c) with respect to such property. In general, subsections (b) and (c) of section 514 bring into the computation of the tax base a portion of the total gross income and deductions attributable to debt-financed property, determined by applying to those totals the fraction

$$\frac{\text{average acquisition indebtedness for the taxable year}}{\text{adjusted basis of the property at the close of the taxable year}}.$$

An addition to existing law is that gains from the sale or other disposition of debt-financed property are included in the gross income figure.

(b) "Debt-Financed Property." Debt-financed property would, with four exceptions, be all property (e.g., rental real estate, tangible personal property, corporate stock) which is held to produce income and with respect to which there is an "acquisition indebtedness" at any time during the taxable year (or during the preceding 12 months, if the property is disposed of during the year). The four exceptions from this definition would be these:

(1) Property all of the use of which is related to the exercise or performance of the organization's exempt function. Thus, a college could finance construction of a dormitory for its students with borrowed funds and pay off the indebtedness from student rents without subjecting any of those rents to tax.

(2) Property all of the income from which is already subject to tax as income from the conduct of an unrelated trade or business. This exception would prevent double taxation of income from financed property used in a trade or business which is taxable under existing law. The exception would, of course, not apply to organizations presently excepted from tax on income deriving from unrelated business.

(3) Property all of the income from which is derived from research activities excepted from the present unrelated business income tax. There are three classes of such research: (a) that performed for governmental bodies; (b) that performed by colleges, universities, or hospitals for any person; and (c) that performed by certain fundamental research organizations for any person.

(4) Property all the use of which is in a trade or business exempted from tax by section 513 (a)(1), (2), or (3). These exceptions apply where (a) substantially all the work in carrying on the business is performed without compensation (e.g., a church thrift ship), (b) a section 501 (c)(3) organization carries on business primarily for the convenience of members, students, patients, officers, or employees (e.g., a college cafeteria), or (c) the business consists of selling merchandise substantially all of which has been received as contributions (e.g., Good Will Industries).

(c) "Acquisition Indebtedness." Income producing property would become "debt-financed property" -- and its income taxable -- only where there is an "acquisition indebtedness" attributable to it. The latter term would be very similar to "business leases indebtedness" as defined in existing law. Generally, an "acquisition indebtedness" would exist with respect to any property whenever the indebtedness was incurred in acquiring or improving the property or would not have been incurred "but for" the acquisition or improvement of the property. If an indebtedness is incurred

after the property was acquired or improved, it would have to meet a further requirement: it would not be "acquisition indebtedness" unless its incurrence was reasonably foreseeable at the time of the acquisition or improvement. Under special rules, if property is acquired subject to a mortgage, the mortgage would be treated as an acquisition indebtedness incurred by the organization when the property is acquired. The extension, renewal, or refinancing of an existing indebtedness would not be treated as the creation of a new indebtedness. The latter rule would preclude the argument that a refinancing was not reasonably foreseeable at the time of the original acquisition of the property and that, therefore, the obligation extant after the refinancing is not an acquisition indebtedness.

(d) "Average acquisition indebtedness." For purposes of the numerator of the fundamental debt/basis fraction, acquisition indebtedness would be averaged over the taxable year. The averaging mechanism precludes an exempt organization from avoiding the tax by using other available funds to pay off the indebtedness immediately before any fixed determination date. If debt-financed property is disposed of during the year, "average acquisition indebtedness" would mean the highest acquisition indebtedness during the preceding 12 months. Without such a rule, an exempt organization could avoid tax by using other resources to discharge indebtedness before the end of one taxable year and dispose of the property after the beginning of the next taxable year. For example, suppose exempt organization E has purchased income-producing property for $20,000 and incurred an indebtedness, still unpaid, of $15,000 to make the purchase. If E sells the property on December 31 for $50,000, 75 percent of the $30,000 capital gain would be included in gross income. Suppose, however, E uses other available resources to discharge the indebtedness on December 31, and sells the property January 2. Without the described special rule for dispositions, the numerator of the fraction would be zero, and no part of the gain would be taxable. Under the special rule an organization would have to commit its own funds at least 12 months in advance of disposition to escape tax on gain from the disposition.

(e) Basis. For purposes of the denominator of the debt/basis fraction, adjusted basis would be computed as of the close of the taxable year, after adjustment for depreciation allowed or allowable during the year. This provision follows section 514 (a)(1) of existing law. The adjusted basis of property disposed of during the year would be determined as of the date of disposition.

If property is distributed from a taxable corporation to the exempt organization, the exempt organization would be required to use the basis of the distributing corporation, with adjustment for any gain recognized on the distribution either to the exempt organization (as, for example, might be the case if the exempt organization had an acquisition indebtedness applicable to its stock in the distributing corporation) or to the taxable corporation (for example, as recapture of depreciation under sections 1245 or 1250). This rule would prevent an exempt organization from acquiring the property in a taxable subsidiary to secure accelerated depreciation during the first several years of the life of the property, enabling the subsidiary to pay off a large part of the indebtedness during those years and the exempt organization to obtain a stepped-up basis

(advantageous both for depreciation purposes and for purposes of enlarging the denominator of the debt/basis fraction) on liquidation of the subsidiary.

(f) Allowable deductions. The percentage used in determining the taxable portion of total gross income would also be used to compute the allowable portion of deductions "directly connected with" the debt-financed property or the income from it. The direct connection requirement is carried over from section 512 of present law. The general approach of the bills is to allow all deductions that would be allowed to a normal taxpayer, to the extent consistent with the purpose of the bills and the nature of the special problems to which they are directed. For example, net operating loss and charitable contribution deductions would be allowed, subject to the limitations imposed by existing law on organizations taxable on unrelated business income (e.g., the percentage limitations on the charitable deduction are computed with reference only to the organization's unrelated business income, not its total income).

However, the deduction for depreciation would be restricted to the straight-line method. Accelerated depreciation ordinarily has the effect of deferring tax on income from depreciable property. However, under the approach of the proposed bills, an exempt organization would become a taxpayer only for a limited period of time -- while acquisition indebtedness remains outstanding -- and would during that time be taxed on a declining proportion of its income. In that setting, accelerated depreciation can be used for more than mere tax deferral; it can be used to reduce the total amount of the tax payable or, in some situations, eliminate tax altogether. It accomplishes that result by enlarging deductions in early years, in which taxability would otherwise be high because of the large amount of indebtedness outstanding. To the extent that the useful life of the property is longer than the term of the indebtedness, acceleration of depreciation shields otherwise taxable income by means of deductions shifted from periods in which no tax at all would be paid. Hence, the bills' limitation of depreciation to the straight-line method is necessary to make their approach meaningful.

(g) Multiple use of property. If property is used partly for exempt and partly for non-exempt purposes, the income and deductions attributable to the exempt uses are excluded from the computation of unrelated debt-financed income, and allocations are to be made, where appropriate, for acquisition indebtedness, adjusted basis, and deductions assignable to the property.

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

Removal Notice

The item identified below has been removed in accordance with FRASER's policy on handling sensitive information in digitization projects due to

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

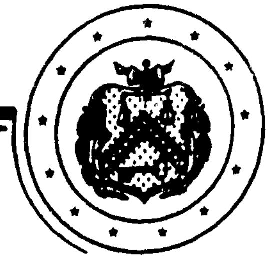
Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

TREASURY DEPARTMENT



WASHINGTON, D.C.

August 30, 1966

FOR IMMEDIATE RELEASE

NEW DEPUTY ASSISTANT FOR PUBLIC AFFAIRS

Secretary of the Treasury Henry H. Fowler today announced the appointment of Frank O'Brien, Jr. as Deputy Assistant to the Secretary for Public Affairs. Mr. O'Brien, who joined the Treasury in April, 1965, replaces Mark T. Sheehan, who is now with the Department of State.

In his new post, Mr. O'Brien will be principal assistant to James F. King, the Assistant to the Secretary for Public Affairs. Mr. King directs the information, press, and related activities of the Treasury Department and all its bureaus.

Mr. O'Brien was born in Kansas City, Missouri, April 4, 1916. He attended public schools in Kansas City and was graduated from the University of Missouri in June, 1939 with a Bachelor of Journalism degree.

He worked for Hearst Publications until March, 1940, in New York City when he went to Turkey for the International News Service.

In 1941, Mr. O'Brien became an Associated Press staffer in charge of the AP listening post at Istanbul covering the occupied Balkan countries. In 1944, he covered entry of the Russian army into Rumania and the Soviet takeover in Rumania and Bulgaria.

Mr. O'Brien went to Egypt in 1945. Following assignments in Syria, Italy and another tour of duty in Rumania, he returned to the U. S. in 1946 where, with William B. King he wrote a book on the Russian takeover of the Balkans, The Balkans, Frontier of Two Worlds, published by Knopf in 1947. He then went to the AP Bureau in Rome where he was assigned to general political, economic and Vatican coverage.

F-604

Mr. O'Brien returned to the U.S. in 1949. He worked one year at the AP Bureau in Philadelphia, and was assigned to the Washington AP Bureau at the end of 1950. His duties included coverage of the Treasury, Federal Reserve System, Department of Commerce, Securities and Exchange Commission, Federal Trade Commission, and housing agencies.

In April, 1956, Mr. O'Brien joined the Research Staff of the Committee for Economic Development. At CED, he handled research assignments in adaptation of the economy to change, causes of poverty, foreign development assistance, agricultural policy and trade policy, and edited a research quarterly. He became Assistant Director of Research -- Editorial, in 1964. In addition, he was the author of a book-length CED study of the growth of economic troubles and weaknesses in communist countries, Crisis in World Communism, published by CED and MacMillan Company in the Spring of 1965.

Mr. O'Brien is married to the former Sevim Zekeriya of Istanbul, Turkey. They live (at 4211 Bradley Lane) in Chevy Chase, Maryland. They have three children.

oOo

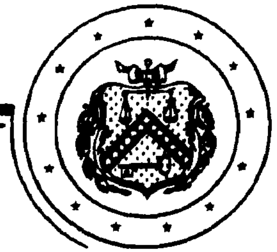
United States Savings Bonds Issued and Redeemed Through August 31, 1966
(Dollar amounts in millions - rounded and will not necessarily add to totals)

	Amount Issued 1/	Amount Redeemed 1/	Amount Outstanding 2/	% Outstanding of Amt. Issued
URED				
ries A-1935 - D-1941	5,003	4,994	9	.18
ries F & G-1941 - 1952	29,521	29,455	66	.22
ries J and K - 1952 - 1953	864	849	15	1.74
ATURED				
ries E: 3/				
1941	1,857	1,609	248	13.35
1942	8,197	7,128	1,070	13.05
1943	13,191	11,502	1,689	12.80
1944	15,385	13,300	2,086	13.56
1945	12,069	10,232	1,837	15.22
1946	5,447	4,406	1,401	19.11
1947	5,146	3,990	1,156	22.46
1948	5,309	4,025	1,284	24.19
1949	5,234	3,888	1,346	25.72
1950	4,573	3,335	1,238	27.07
1951	3,959	2,886	1,073	27.10
1952	4,148	2,988	1,160	27.97
1953	4,728	3,299	1,429	30.22
1954	4,812	3,259	1,553	32.27
1955	5,009	3,293	1,716	34.26
1956	4,827	3,068	1,759	36.44
1957	4,524	2,789	1,736	38.37
1958	4,378	2,562	1,816	41.48
1959	4,098	2,370	1,727	42.14
1960	4,092	2,254	1,838	44.92
1961	4,118	2,118	2,000	48.57
1962	3,964	1,972	1,992	50.25
1963	4,401	1,957	2,444	55.53
1964	4,296	1,823	2,473	57.57
1965	4,203	1,523	2,680	63.76
1966	1,975	313	1,662	84.15
lassified	607	638	-31	-
al Series E	144,548	102,529	42,019	29.07
es H (1952 - Jan. 1957) 3/	3,670	1,991	1,680	45.78
H (Feb. 1957 - 1966)	7,552	1,375	6,177	81.79
al Series H	11,222	3,366	7,857	70.01
al Series E and H	155,771	105,895	49,876	32.02
es J and K (1954 - 1957)	2,878	2,108	4/ 771	26.79
eries: Total matured	35,388	35,298	90	.25
eries: Total unmatured	158,649	108,003	50,646	31.92
eries: Grand Total	194,037	143,301	50,737	26.15

ncludes accrued discount.
urrent redemption value.
option of owner bonds may be held and will earn interest for additional
eriods after original maturity dates.
ncludes matured bonds which have not been presented for redemption.

BUREAU OF THE PUBLIC DEBT

TREASURY DEPARTMENT



WASHINGTON, D.C.
September 2, 1966

FOR USE IN AFTERNOON NEWSPAPERS OF
FRIDAY, SEPTEMBER 2, 1966

TREASURY HONORS 159 AT ANNUAL AWARDS CEREMONY

Under Secretary of the Treasury Joseph W. Barr today honored 159 Treasury employees, recipients of awards for outstanding service and significant contributions to Treasury operations, at the Department's Third Annual Awards Ceremony.

In the fiscal year ending last June 30, Treasury employees received more than $800,000 in awards for adopted suggestions for improved Treasury operations and other outstanding service. Estimated first year benefits to the Treasury, in the form of cost reductions and increased efficiency, exceeded $7 million -- more than twice the previous all-time high.

Among those recognized at the awards ceremony, held at the Departmental Auditorium, Washington, D. C., were:

-- 38 persons, who during the year had received either of the Treasury's two top awards, for Exceptional Service or for Meritorious Service.

-- 43 employees who, through outstanding suggestions or service, contributed to significant monetary savings, increased efficiency, or distinct improvements in government service.

-- 13 supervisors, for notable achievements in encouraging employee contributions to efficiency and economy.

-- 43 employees who received special awards for outstanding contributions in improving communications and services to the public.

F-605

In addition, the awards ceremony, held on a day marking the 177th anniversary of the Treasury Department, honored 21 long-time career employees -- 15 of whom have served more than 40 years, four more than 45 years, and two more than 50 years.

The ceremony today also noted that Merlyn N. Trued, who resigned as Assistant Secretary of the Treasury for International Affairs in April received the Treasury's highest honor -- the Alexander Hamilton Award. Mr. Trued is now a Cleveland banker.

The Bureau of the Mint was cited for outstanding participation in the Treasury Department's Incentive Awards Program. The Bureau of Accounts was recognized for outstanding achievement in the Bureau's suggestion program.

Attached is a list of those recognized, and their citations.

oOo

EMPLOYEE SUGGESTIONS AND SERVICES

Recognition by the Secretary of outstanding suggestions or exemplary services which served to effect significant monetary savings, increased efficiency, or improvements in Government operations.

AD2 Roger S. Adams, Aviation Machinists Mate, Second Class, U.S. Coast Guard Air Station, New Orleans, La.

For development of a specially designed portable hoist to simplify changing of engines of HH-52A Helicopters when an overhead hoist is not available. Estimated savings—$15,000. Suggestion Award—$1,000.

Mary A. Ambrose, Card Punch Operator, Bureau of the Public Debt, Parkersburg, W. Va.

For exceptional productivity in a key-punch operation, enabling her to exceed the group average by 44 percent, and contributing to the overall effectiveness of the Savings Bonds Program. Special Service Award—$525.

Kenneth E. Balge, Assistant Special Agent in Charge, Washington Field Office, U.S. Secret Service, Washington, D.C.

For his excellent performance and outstanding courage during an undercover assignment on a major counterfeiting case which involved grave personal danger. Special Service Award—$500.

Neil R. Butler (Retired), Formerly Aviation Electronics Technician, Second Class, U.S. Coast Guard Aircraft Repair and Supply Center, Elizabeth City, N.C.

For successfully devising a method to enable utilization of electronic consoles already available for tests on electronic equipment in the HH-52A Helicopters, thus eliminating the need for expensive new equipment. Estimated savings—$72,000. Suggestion Award—$1,000.

YNCM–P1 ROBERT CARLSON, Master Chief Yeoman, 1st Coast Guard District, Boston, Mass.

For proposing the use of messages to accelerate the separation of nonproductive enlisted personnel, thus contributing to the cost reduction program of the Coast Guard. Estimated savings—$24,000. Suggestion Award—$770.

EDWARD A. CONROY, Chief, Planning and Programing Branch, Internal Revenue Service, Washington, D.C.

For superb leadership he provided a special project involving investigative procedures and techniques. Special Service Award—$500.

MARGARET F. CRAFT, Supervisory Tax Examiner, Data Processing Division, Internal Revenue Service Center, Chamblee, Ga.

For suggesting the utilization of electronic accounting machines to reduce manhours spent in keypunching unpostable correction cards. Estimated savings—$36,250. Suggestion Award—$835.

CLEMENT A. DERNBACH, Revenue Officer, Internal Revenue Service District Office, Chicago, Ill.

For his outstanding suggestion pertaining to the collection of delinquent taxes from persons arrested for violating marihuana and narcotic tax laws, resulting in collection of additional revenues. Suggestion Award—$600.

JAMES F. GAULDING, Assistant Regional Counsel, Alcohol and Tobacco Tax, Southwest Region, Internal Revenue Service, Dallas, Tex.

For highly exemplary manner in managing and directing the legal affairs and personnel of the Alcohol and Tobacco Tax function of the Southwest Regional Counsel's Office. Superior Work Performance Award—$500.

PHILLIP J. GILLHAM, Entry Procedures Auditor, Bureau of Customs, Houston, Tex.

For intensive research and analysis of the importation of galvanized pipe, resulting in an increase in revenue, estimated at $80,000 per annum. Special Service Award—$500.

HAROLD D. HEDRICK, Tool and Die Maker, U.S. Mint, Denver, Colo.

For modifications in machining of coinage dies, resulting in saved time and first-year savings of $11,596 in the manufacturing of dies for striking U.S. coins. Suggestion Award—$540.

JOHN E. HURLEY, Principal Technical Assistant, Exempt Organizations and Pension Trust Division, Office of Assistant Commissioner (Technical), Internal Revenue Service, Washington, D.C.

For proposing a revision of the post review procedures which eliminated the need for returning many case files from field offices to the National Office. Estimated savings—$17,000. Suggestion Award—$680.

JOHN D. JAMIESON, Special Mechanical Assistant, U.S. Mint, Denver, Colo.

For achievement in engineering the conversion of dual-strike coin presses to four-strike presses, constituting a major breakthrough in the field of coin production. First-year savings—$214,000. Special Service Award—$1,265.

FRANCIS E. JONES, Guard, Distinctive Paper Field Unit (U.S. Government Mill), Operating Facilities Division, Bureau of Engraving and Printing, Pittsfield, Mass.

For suggesting a more economical method of wrapping and banding dry distinctive currency paper for shipment to Washington. Estimated annual savings—$10,470. Suggestion Award—$515.

Cdr. DAVID M. KAETZEL, 14th Coast Guard District, Honolulu, Hawaii.

For development of an improved insulation technique for use in ship and boat construction, thereby reducing the labor cost of applying the insulation material. Estimated savings—$20,000. Suggestion Award—$750.

JAMES J. KELLY, Supervisory General Supply Officer, U.S. Mint, Philadelphia, Pa.

For developing a system for the reclamation of used die holders, which restored them to their original size at approximately one-third the cost of new holders. Estimated savings—$39,448. Suggestion Award—$850.

WILLIAM E. LEUBA, Quarterman Boatbuilder (Plastic), Coast Guard Yard, Baltimore, Md.

For initiative and effective leadership during detail as Shop Head of the Plastic Products Shop resulting in savings of almost $14,000. Superior Work Performance Award—$760.

ANTONIO LONARDO, Jr., Digital Computer Systems Administrator, Accounting and Data Processing Division, North Atlantic Service Center, Internal Revenue Service, Lawrence, Mass.

For proposing the duplicating of multireels of tape onto one tape, thereby alleviating the shipment of tapes having only a few feet of data. Estimated savings—$34,134. Suggestion Award—$825.

REYNALDO P. MADURO, Criminal Investigator, Bureau of Narcotics, Mexico, D.F., Mexico

For exceptional cooperation with international law enforcement officials and outstanding work under hazardous conditions in a foreign country, which led to one of the largest seizures of marihuana ever made in Mexico. Special Service Award—$500.

SIDNEY MANSTER, Assistant Regional Counsel (Enforcement), North Atlantic Region, Internal Revenue Service, New York, N.Y.

For the highly exemplary management and direction of the legal affairs and personnel of the Enforcement function in the North Atlantic Regional Counsel's Office. Superior Work Performance Award—$500.

THOMAS E. MCGRAW, Chief, Facilities Management Branch, Central Service Center, Internal Revenue Service, Cincinnati, Ohio

For proposing the use of magnetic tape shipments with a monthly invoicing system to replace individual bills of lading. Estimated savings—$30,000. Suggestion Award—$1,000.

CHRELE ROBERT E. MOORING, Chief Radio Electrician, U.S. Coast Guard Headquarters, Washington, D.C.

For developing a receiver audio distribution switchboard for Coast Guard vessels which reduced labor time and shipfitting necessary for installation of complex audio distribution systems. First year savings—$6,895, plus significant subsequent benefits. Suggestion Award—$500.

JOHN P. NANTELL, Criminal Investigator, Internal Security Division, Central Region, Internal Revenue Service, Cleveland, Ohio

For excellent work in a special investigation which served as a model case in the Integrity Assurance Program. Special Service Award—$500.

Charles W. Nyquist, Staff Assistant to the Regional Counsel, Western Region, Internal Revenue Service, San Francisco, Calif.

For the highly exemplary manner in which he undertook the coordination and preparation of a related group of 20 unusual and unprecedented Tax Court cases. Special Service Award—$500.

Edward F. Ostrowski, Engineering Technician, 3d Coast Guard District, New York, N.Y.

For suggesting the use of MYLAR film for preparing form for lighted aids, thus facilitating the aids to navigation conversions. Estimated savings—$9,000. Suggestion Award—$650.

Robert L. Packard, Chief, Collection Division, Internal Revenue Service District Office, Reno, Nev.

For providing able leadership to the Reno District during the 9-month absence of the District Director due to illness. Special Service Award—$600.

Richard J. Rogers, Storage Battery Repairman, U.S. Coast Guard Base, Boston, Mass.

For development of a jack-type clamp to secure 12–AN–10 power unit in buoy pockets, thus facilitating ease and speed of installation. Estimated savings—$22,242. Suggestion Award—$765.

Edward W. Voigt, Line Commodity Specialist, Bureau of Customs, Detroit, Mich.

For the development and implementation of the Immediate Delivery System of merchandise processing, regarded as an important factor in the modernization and reorganization of the Customs field service. Suggestion Award—$500.

G. Norris Watson, Senior Attorney, Refund Litigation Division, Office of the Chief Counsel, Internal Revenue Service, Washington, D.C.

For the highly exemplary manner in which he has discharged his duties and responsibilities to the Refund Litigation Division. Superior Work Performance Award—$500.

Horace M. West, Office Appliance Repairman, Birmingham Disbursing Office, Bureau of Accounts.

For modifying an obsolete inserting and sealing machine, enabling it to mechanically open check envelopes and remove contents. First-year savings—$12,581. Special Service Award—$565.

227-761—66——2

Earl R. White, Customs Inspector, Bureau of Customs, John F. Kennedy Airport, New York, N.Y.

For exceptional alertness in effecting a seizure of more than 6½ pounds of heroin without advance information concerning its delivery. Special Service Award—$600.

Robert Yakubec, Formerly Special Agent, Intelligence Division, Manhattan District Office, Internal Revenue Service, New York, N.Y.

For outstanding undercover work in a large-scale bookmaking operation which required arduous efforts under conditions of great danger and resulted in the indictment of 10 individuals and the seizure of $10,632.04. Special Service Award—$500.

George S. Alberts, Senior Staff Assistant to Chief, Audit Division, Brooklyn District Office

Anthony D. Delukey, Regional Analyst, Office of the Assistant Regional Commissioner (Audit)

Sam Felsenstein, Chief Classifier, Audit Division, Brooklyn District Office

North Atlantic Region, Internal Revenue Service, New York, N.Y.
For outstanding achievement in the Audit Classification Program of the Manhattan and Brooklyn Districts' prerefund returns at the North Atlantic Service Center. Estimated savings—$48,900. Group Special Service Award—$960.

Conrad A. Alberding, Contract Specialist

Richard Heys, Procurement Officer

Facilities Management Division, Office of the Assistant Commissioner (Administration), Internal Revenue Service, Washington, D.C.

For outstanding ingenuity and resourcefulness in purchasing magnetic computer tape and conducting negotiations with several companies which resulted in a much lower price. Estimated savings—$106,000. Group Special Service Award—$1,160.

Sidney F. Carwile, Management Analysis Officer
Francis B. Frere, Management Analyst
Frank D. Lawson, Management Analyst
Frederick W. Tate, Assistant Director
Bureau of the Mint, Washington, D.C.

For their achievements in reducing costs on the transportation and processing of metals required for new coinage alloys under the Coinage Act of 1965. Estimated savings—$3,267,140. Group Special Service Award—$4,320.

Charles B. Miller, Senior Regional Analyst, Office of Assistant Regional Commissioner (Data Processing)
Robert M. Steele, Management Officer, Administration Division, Office of Regional Commissioner
Internal Revenue Service, Atlanta, Ga.

For suggesting and designing a plastic insert to convert surplus account-card cabinets into units for housing microfilm cartridges, eliminating the need for purchasing microfilm storage cabinets. Savings—$28,744. Group Suggestion Award—$1,140.

SPECIAL AWARDS FOR EXCELLENCE IN IMPROVING COMMUNICATIONS AND SERVICES TO THE PUBLIC

Recognition by the Secretary for outstanding contributions during fiscal year 1966 which improved communications and services to the public.

WILBUR BEALL, Chief, Cash Division, Office of the Treasurer of the United States, Washington, D.C.

For exceptional supervisory abilities in maintaining effective service and excellent relations with the public, resulting in a public image of the highest order.

ROSE L. EVANCIC, Telephone Supervisor, 9th Coast Guard District, Cleveland, Ohio

For notable achievement in furthering the Coast Guard's relationship with the public. Her capabilities and courtesy were recognized by the Ohio Bell Co. in their VOICE Magazine.

MARGARET L. FLETCHER, Statistical Officer, Office of the Director of the Mint, Washington, D.C.

For noteworthy contributions in the preparation of the Annual Report of the Director of the Mint which serves, at home and abroad, as a primary source of information on coinage, monetary stocks, and industrial consumption of gold and silver.

LOUIS R. FREDERICO, Guard Supervisor (Senior Lieutenant), U.S. Mint, Philadelphia, Pa.

For exemplary performance of duty and commendatory judgment and conduct when dealing with the public.

WALTER J. HERRON, Chief, Check Claims Division, Office of the Treasurer of the United States, Washington, D.C.

For technical excellence and stimulation of highly effective employee performance within the Check Claims Division, resulting in improved communications and service to the public.

Harold B. Master, Assistant to the National Director-Coordinator for Banking and Volunteer Activities, U.S. Savings Bonds Division, Washington, D.C.

For outstanding contributions to the Savings Bonds Program, resulting from his understanding, courtesy, cooperativeness, unfailing patience, and good humor in dealing with volunteers of the program throughout the Nation and with the general public.

Ronald B. Merriweather, Special Agent, Cleveland Field Office, U.S. Secret Service, Cleveland, Ohio

For his noteworthy contributions to high-quality service in dealing with public officials and the public generally in the difficult role of criminal investigator.

Francis W. Pickar, Clerk-Stenographer, U.S. Savings Bonds Division, Miami, Fla.

For providing a constant and efficient source of information to volunteers of the Savings Bonds Program and the bond-buying public in a cooperative and pleasant manner, which has been a tremendous asset to the Program.

Myrtice G. Pomeroy, Public Information Specialist, Bureau of Customs, Washington, D.C.

In recognition of her highly successful efforts in improving the design and appearance of Customs publications used by the public.

Mary L. Pryor, Securities Examiner (Claims Correspondent), Securities Transactions Section, Division of Loans and Currency, Bureau of the Public Debt, Washington, D.C.

For noteworthy improvements in the processing of claims for relief on account of the loss, theft, or destruction of securities, and for the outstanding clarity and helpfulness of her correspondence with the public.

Walter F. Savage, Internal Revenue Agent, Internal Revenue Service, San Diego, Calif.

For exemplary performance in the dissemination of tax information to the public in support of the voluntary compliance objectives of the Internal Revenue Service.

Lawrence B. Slotnik, Criminal Investigator, Bureau of Narcotics, Chicago, Ill.

For outstanding interest and effort in improving communications and services to the public, and in particular with the medical and pharmaceutical professions.

Jane B. Spear, Management Analyst, Office of Management and Organization, Office of the Secretary, Washington, D.C.

For imaginative, timely, and effective staff assistance to the Secretary's Public Services Committee and the Treasury's Interbureau Public Services Committee in furtherance of Treasury's program to improve its communications with the public.

Clarice W. Thomas, Directory Clerk, U.S. Coast Guard, Washington, D.C.

For the highly exemplary representation of the Coast Guard to the public as reflected in expressions of appreciation from private citizens, business concerns, and other Government agencies for her outstanding service.

John W. Warner, Jr., Deputy Assistant to the Director (Information and Liaison), U.S. Secret Service, Washington, D.C.

For noteworthy contributions to high-quality communications in the preparation of public literature and for his efforts to obtain excellence in telephone, letter, and face-to-face communications throughout the Bureau.

Mary F. Williams, Securities Examiner, Correspondence and Ruling Unit, Bureau of the Public Debt, Chicago, Ill.

For excellence in improving communications and services to the public by her effectiveness in the preparation of correspondence and the outstanding quality of her writing.

Isabella R. Wiltshire, Clerk-Correspondent, Bureau of Narcotics, Washington, D.C.

For exceptional ability in judiciously handling requests for information from the general public and Federal and State agencies concerning the Bureau and its functions.

LUCILE N. BOYD, Employee Development Officer, Programs and Standards Branch, Training Division, Internal Revenue Service, Washington, D.C.

LUTHERA B. DAWSON, Employee Development Officer, National Training Center, Training Division, Internal Revenue Service, Arlington, Va.

For their noteworthy contribution entitled "Management of Writing and Writers" for use in the Management Development Program of the Service to help improve communications with the public.

FRED R. BOYETT, Regional Commissioner, Chicago, Ill.

DAVID C. ELLIS, Assistant Commissioner, Washington, D.C.

PALMER F. KING, Assistant Regional Commissioner, Houston, Tex.

CLEBURNE M. MAIER, Regional Commissioner, Houston, Tex.

Bureau of Customs

For excellent service performed in educating the business community concerning the effects of the reorganization of the Bureau of Customs and accompanying procedural changes.

KENNETH A. DEHART, Assistant Superintendent, Plate Printing Division

FRANK S. TUCCI, Assistant Head, Production Control and Scheduling Branch, Industrial Engineering Division

CLINTON A. BALL, Guard, Security Division

Bureau of Engraving and Printing, Washington, D.C.

For significant contributions to better communications with the public about the Federal Government through displays and exhibits at philatelic, numismatic, and other public events.

JOSEPH G. FOWLER, Personnel Officer, National Office Branch, Personnel Division

EDWARD W. BROOKS, Management Analyst, Facilities Management Division, National Office

Internal Revenue Service, Washington, D.C.

For suggesting and developing a visitors' information telephone system by which a receptionist in the main lobby of the IRS building can answer questions of visitors from stations at each entrance.

Charles J. Cockburn, Industrial Engineering Technician, Industrial Engineering Division

John A. Seymour, Head, Engineering and Development Branch, Office of Research and Development Engineering

Edward J. Kalin, Industrial Engineering Technician

Walter Konrad, Industrial Engineering Technician, Industrial Engineering Division

John M. Chalker, Supervisory Electrical Engineer

George R. Latham, III, Mechanical Engineer

Edward A. Peterson, Mechanical Engineer

Richard C. Sennett, Mechanical Engineer

Edward H. Cahill, Jr., Engineering Technician

Joseph M. DeBose, Jr., Engineering Technician

Edward J. MacHale, Electrical Engineer

Axel B. Niskanen, Mechanical Engineer

David B. Moore, Engineering Technician

William E. Tiley, Engineering Technician

Jesse L. Marks, Jr., Engineering Draftsman

Office of Research and Development Engineering, Bureau of Engraving and Printing, Washington, D.C.

For outstanding accomplishments in developing a self-guided tour system and performing engineering work required for its installation, thus providing a much more extensive, informative, and convenient tour of Bureau operations to more than 600,000 tourists annually at an estimated cost reduction of $70,000 annually.

AWARDS TO SUPERVISORS

Recognition by the Secretary of notable achievements by supervisors in encouraging employee contributions to efficiency and economy. These supervisors were selected from Bureau nominees after consideration of such factors as the size of groups supervised, the value of contributions, and the nature of action by the supervisor.

HOWARD M. ANNIS, Chief, Securities Division, Office of the Treasurer of the United States, Washington, D.C.

For achieving a high level of employee performance and for leadership in promoting effective use of the Incentive Awards Program to reduce operating costs and to improve services to the public.

HENRY A. ATOR, Assistant Superintendent (Mechanical Services), Construction and Maintenance Division, Bureau of Engraving and Printing, Washington, D.C.

For exceptional initiative and leadership which effectively increased employee participation in the Incentive Awards Program, resulting in increased efficiency and substantial cost reductions.

Cdr. WILLIAM H. BOSWELL, Chief, Budget and Cost Analysis Division, U.S. Coast Guard Headquarters, Washington, D.C.

For outstanding effectiveness in encouraging the employees of his Division to increase the quantity and quality of their participation in the Incentive Awards Program.

WILLIAM ALVIS DAVIS, Supervisor, Vault Unit, Security Audit Section, Division of Retired Securities, Bureau of the Public Debt, Washington, D.C.

For exceptional leadership and ability in training and utilizing manpower which enabled his unit to process a substantially greater workload despite high personnel turnover.

HERBERT H. HERSCH, Supervisory Tax Technician, Los Angeles District, Internal Revenue Service, Van Nuys, Calif.

For his many excellent suggestions and the stimulation given his fellow employees in the cost-reduction program.

Israel P. Jackson, Supervisor, Stores Section, Operating Facilities Staff, Division of Financial Management, Bureau of Accounts, Washington, D.C.

For motivating his employees to be exceptionally cost and safety conscious and instilling in them an unusual spirit of teamwork and dedication to Bureau programs.

Salvatore Magliozzo, Chief, Diversified Payments Branch, New York Disbursing Office, Bureau of Accounts

For the stimulus he has provided his employees to better their performance, to be cost and production minded, and to augment their skills by diversified on-the-job training.

Randell S. Mayer, Jr., Chief Classifying Officer, Office of the District Director, Internal Revenue Service, New Orleans, La.

For his demonstrated ability to couple cost-consciousness with creativity, a sense of duty, high morale, and efficiency among his employees despite heavy workload pressures.

Alyce Robinson, Supervisor, Diversified Payments Section, Special Payments and Claims Branch, Philadelphia Disbursing Office, Bureau of Accounts

For leadership and personal example which motivated her employees to improve operations through the Suggestion Program and inspired greater productivity despite reorganization and lack of subordinate supervisory assistance.

Vernon Ruther, Foreman, Plate Printing Division, Bureau of Engraving and Printing, Washington, D.C.

For personal leadership and genuine interest in effectively encouraging employee participation in the Incentive Awards Program within his Section and Division.

Philip Sansotta, Regional Chief, Facilities Management Branch, Internal Revenue Service, Cincinnati, Ohio

For commendable leadership in the Incentive Awards Program and the consequent success of his employees in improving Service operations through their suggestions and performance.

Phillip R. Smith, District Supervisor, Bureau of Narcotics, Baltimore, Md.

For initiative, resourcefulness, and effective leadership in promoting the Incentive Awards Program as manifested by many significant contributions of his employees and his own personal contributions.

Rufus G. Taylor, Guard Supervisor, Security Division, Bureau of Engraving and Printing, Washington, D.C.

For personal leadership and interest in effectively encouraging employee participation in the Incentive Awards Program, resulting in 115 suggestions submitted per 100 employees on his rolls.

THE SECRETARY'S ANNUAL AWARDS

TREASURY INCENTIVE AWARDS PROGRAM

The Secretary of the Treasury presents two honorary awards each year to recognize bureaus for outstanding participation and results in the Treasury Department's Incentive Awards Program. One is given to the bureau showing the best average results in the suggestion phase of the program and the other to the bureau showing the best average results in the performance phase of the program.

SECRETARY'S AWARD FOR PERFORMANCE PHASE OF PROGRAM

Bureau of the Mint

For effective recognition of employee performance which significantly exceeded normal job requirements. In recognition of such performance, approximately 5 percent of the Mint personnel received either performance awards or high-quality pay increases and estimated tangible benefits from services recognized exceeded $3.5 million during fiscal year 1966.

SECRETARY'S AWARD FOR SUGGESTION PHASE OF PROGRAM

Bureau of Accounts

For outstanding achievement in the Bureau's suggestion program during fiscal year 1966. Per 100 employees on its rolls the Bureau had 12.5 adopted suggestions and estimated savings of $3,383.

CAREER SERVICE RECOGNITION

Recognition by the Secretary of employees in the Washington, D.C., area who attained 50, 45, or 40 years of Federal service during fiscal year 1966.

50 Years of Federal Service

George F. Breen	Internal Revenue Service
Grant R. Newton (Retired)	Bureau of the Public Debt

45 Years of Federal Service

Daisy F. Gambon	Bureau of Engraving and Printing
Bessie E. Jett	Bureau of Engraving and Printing
Ruth E. Loveless	Bureau of Engraving and Printing
Forrest P. Neal	Internal Revenue Service

40 Years of Federal Service

Bernard A. Alexander (Retired)	Office of the Treasurer, U.S.
Richard W. Barkley, Jr.	Internal Revenue Service
Margaret L. Burke (Retired)	Office of the Secretary
William G. Christian	Internal Revenue Service
Ross A. Heffelfinger	Bureau of the Public Debt
Kenneth W. Johnson	Internal Revenue Service
Percy M. Marshall	Bureau of the Public Debt
James E. Murray	Internal Revenue Service
Lillian V. Poague	Internal Revenue Service
Emmett C. Sullivan	U.S. Coast Guard
Mary E. Swain (Retired)	Bureau of the Public Debt
Joseph B. Thompson	Bureau of Engraving and Printing
William Tolbert	Bureau of Engraving and Printing
Charles H. Wagner	Internal Revenue Service
Dorothy I. Williams	Bureau of Narcotics

MERITORIOUS SERVICE AWARD

The Meritorious Service Award is next to the highest award which may be recommended for presentation by the Secretary. It is conferred on employees who render meritorious service within or beyond their required duties.

LEO BARDENHEUER III (Retired), Formerly Assistant Director, Appellate Division, Internal Revenue Service, Washington, D.C.

For outstanding performance and excellent management ability in developing plans, programs, and procedures which have resulted in increased appellate productivity while maintaining high-quality standards.

JOHN H. BINGLER (Retired), Formerly District Director, Internal Revenue Service, Pittsburgh, Pa.

For exemplary performance and excellent achievement in the management, administration, and technical direction of assessment, enforcement, and collection activities in the Pittsburgh area.

MICHAEL BRADFIELD, Attorney-Adviser (General), Office of the General Counsel, Office of the Secretary

For vital assistance in the preparation of materials for use in conferences on international monetary affairs, particularly in Group of Ten Activities, and for wise counsel in the drafting of reports on these conferences.

JOHN F. BREKLE, Assistant Officer in Charge, San Francisco Assay Office, Bureau of the Mint

For invaluable contributions to the emergency expansion and conversion of the San Francisco Assay Office to a modern coin-producing plant.

JOHN COPELAND, Chief, Excise Taxation Staff, Office of Tax Analysis, Office of the Secretary

For outstanding assistance in the solution of tax problems, exceptional ability in analyzing excise tax proposals, and important contributions to the development of Treasury tax policy.

KENNETH M. FAILOR, Assistant to the Director of the Mint

For exceptional achievements in establishing effective relationships with the public and with the Congress and for his outstanding skill in forecasting coinage demands.

WIRTH F. FERGER (Retired), Formerly Tax Research Officer, Office of the Assistant Commissioner (Planning and Research), Internal Revenue Service, Washington, D.C.

For outstanding leadership in the advanced research activities of the Internal Revenue Service and distinguished contributions to the art of tax administration.

PATRICK F. GORMAN III, Chief, Reproduction Branch, Office of Administrative Services, Office of the Secretary

For leadership, ingenuity, and devotion to duty in providing timely and high-quality reproduction work in the Office of the Secretary, despite stringent deadlines.

EVA K. HAUGHEY, Assistant to the Director, Office of Debt Analysis, Office of the Secretary

For exemplary contributions to the organization and work of the Office of Debt Analysis and exceptional performance in broadening public understanding of fiscal and debt management policies.

HAROLD HAWKINS (Retired), Formerly Regional Commissioner Western Region, Internal Revenue Service, San Francisco, Calif.

For distinguished contribution to the stature and integrity of the Internal Revenue Service by superlative performance in organizing, directing, and coordinating a major segment of its activities.

GUSTAV A. JUSTUSSON (Retired), Formerly Assistant Chief, Division of Loans and Currency, Bureau of the Public Debt, Washington, D.C.

For substantial contributions to the orderly and efficient conduct of public debt activities and leadership in reducing operating costs without impairment of the quality or timeliness of service to the public.

HYMEN R. KAPLAN, Public Information Specialist, Public Information Division, U.S. Coast Guard, Washington, D.C.

For exceptional achievement in portraying the U.S. Coast Guard to news media in the light of its service to the American public.

Edmund J. Linehan, Director, Advertising and Promotion Branch, U.S. Savings Bonds Division, Washington, D.C.

For outstanding contributions to the U.S. Savings Bonds Program resulting from unstinted dedication of exceptional ability to the advertising and promotion fields.

George S. Maharay, Deputy Director of Personnel, Office of the Secretary

For outstanding performance in the areas of employee management relations and services and his vital role in strengthening the total personnel program of the Department.

Stephen C. Manning, Jr. (Retired), Formerly Deputy Assistant to the Secretary (Public Affairs), Office of the Secretary

For superlative performance of duty as Deputy Assistant Secretary and outstanding contribution to a better public understanding of Treasury policy.

Anita Wells Merriam, Financial Economist, Office of Tax Analysis, Office of the Secretary

For outstanding ability and important contributions to the Office of Tax Analysis in the area of Federal-State-local fiscal relations.

Emanuel E. Minskoff (Deceased), Formerly Chief of Enforcement, Office of Foreign Assets Control, Office of the Secretary

For exemplary performance resulting in an extraordinary record of detection, prosecution, and conviction of major violators of Treasury foreign assets controls and a high degree of public compliance with those controls.

Randolph Mobbs, Regional Disbursing Officer, Bureau of Accounts, Birmingham, Ala.

For outstanding management ability and performance which contributed to cost reductions and advances in employee productivity.

Alvin W. Norcross, Assistant to the Director of Personnel (Career and Employee Development), Office of the Secretary

For major contributions and outstanding competence in the areas of employee training and incentive awards.

George F. Reeves (Retired), Formerly Assistant General Counsel, Office of the General Counsel, Office of the Secretary

For exemplary performance, professional competence, and valuable counsel as principal legal adviser to the Fiscal Service.

Robert B. Ritter (Retired), Formerly Director, Alcohol and Tobacco Tax Legal Division, Office of the Chief Counsel, Internal Revenue Service, Washington, D.C.

For excellent legal and managerial ability in developing plans, legislative programs, and management procedures which increased the productivity of the Alcohol and Tobacco Tax Division while maintaining high-quality standards.

Paul S. Rundle, Assistant Special Agent in Charge, U.S. Secret Service, Paris, France

For exemplary performance as an undercover agent and in collaboration with police in several European countries which resulted in breaking up a gang of dangerous criminals and large seizures of counterfeit U.S. currency.

Thomas E. Scanlon (Retired), Formerly District Director, Internal Revenue Service, Brooklyn, N.Y.

For exceptional performance as District Director in a large and complex operation and for innovation and organization on projects which have had Service-wide significance and application.

Charles B. Smith, Administrative Officer, Dangerous Cargo Transportation, Port Security and Law Enforcement Division, U.S. Coast Guard, Washington, D.C.

For outstanding professional competence and significant contributions to the efficiency of the U.S. Coast Guard in the field of dangerous cargo transportation.

William H. Smith, Deputy Commissioner of Internal Revenue

For outstanding contribution to successful tax administration through leadership in directing the forward thrust of the Service in its use of Automatic Data Processing.

Leola M. Stahl, Secretary to Assistant General Counsel Donald L. Ritger. Formerly Secretary to the Deputy General Counsel.

For extended effort and ability in performing secretarial duties for the Acting General Counsel in addition to her regular duties as secretary to the Deputy General Counsel.

GEORGE TOBIN, Assistant Superintendent and Chief Clerk, New York Assay Office, Bureau of the Mint

For superior performance during more than 41 years of service at the New York Assay Office and an exemplary record of contributions to the programs of the Bureau of the Mint.

ERNEST H. VAUGHN (Retired), Formerly Regional Commissioner, Central Region, Internal Revenue Service, Cincinnati, Ohio

For outstanding performance as Regional Commissioner and for improvements in tax administration which have had Service-wide significance and application.

WILLIAM M. WEIR (Retired), Formerly Budget Officer, Office of Budget and Accounts, Bureau of the Public Debt

For sound judgment and outstanding administrative ability in meeting program requirements of the Bureau of the Public Debt and in insuring the smooth and efficient conduct of public debt operations.

GEORGE E. ZEITLIN, Deputy Tax Legislative Counsel, Office of the Secretary

For his major contributions to the most important tax developments during the period 1962–66, including the Revenue Act of 1966, the Tax Adjustment Act of 1966, and the depreciation revisions of 1964.

EXCEPTIONAL SERVICE AWARD

This is the highest award which may be recommended for presentation by the Secretary. The award is conferred on employees who distinguish themselves by exceptional service within or beyond their required duties.

EVA B. ADAMS, Director of the Mint

For outstanding direction of the Mint in overcoming coin shortages and in forestalling a coinage crisis by timely production of new and intricately designed coins.

ERNEST C. BETTS, Jr., Deputy Assistant Secretary for Administration and Director, Office of Budget and Finance, Office of the Secretary

For outstanding performance, as Director of the Office of Budget and Finance, and effective contributions, as Deputy Assistant Secretary for Administration, to the Treasury's management improvement programs.

KENNETH S. HARRISON, Chief Counsel, U.S. Coast Guard

For outstanding performance and professional competence which have contributed directly to the resolution of the many legal intricacies involved in the operations of the U.S. Coast Guard.

JAMES P. HENDRICK, Deputy Assistant Secretary, Office of the Secretary

For continued excellence as Deputy Assistant Secretary in an office with supervisory responsibility over major Treasury activities and for outstanding contribution to the Department's administration of antidumping laws.

RALPH HIRSCHTRITT, Deputy to the Assistant Secretary for International Financial and Economic Affairs, Office of the Secretary

For valued counsel to the Secretary and exceptional contribution to the formulation and execution of United States foreign and economic policies.

Lester D. Johnson, Commissioner of Customs

For distinguished service to the Bureau of Customs and dynamic leadership in effecting a fundamental reorganization of the Customs Service with a minimum of dislocation to operations.

Bill McDonald (Retired), Formerly Assistant National Director, U.S. Savings Bonds Division

For outstanding contributions to the Treasury Department in maintaining the Savings Bonds Program at an exceptionally high level in sales and operations.

Lawrence M. Stone, Formerly Tax Legislative Counsel, Office of the Secretary

For outstanding professional competence, exceptional ability, and sound judgment in the direction of an office which carries a major responsibility for the Department's role in the tax policy field.

DISTINGUISHED SERVICE AWARD

The highest recognition which may be conferred by Treasury on an individual not employed by the Department for unusually outstanding assistance to the Department.

WILLIAM C. DECKER, Consultant, Office of the Secretary, and Honorary Vice Chairman of the Board, Corning Glass Works, Corning, N.Y.

For invaluable assistance to the Treasury Department in negotiating procurement contracts and assuring timely receipt of high-quality materials essential for new coinage needed to resolve the serious coin shortage existing throughout the Nation in 1965.

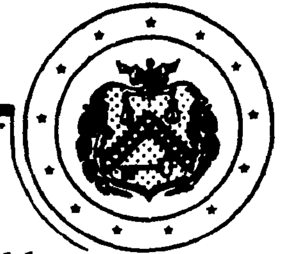
ALEXANDER HAMILTON AWARD

This award is conferred by the Secretary to individuals personally designated by him to be so honored. It is generally restricted to the highest officials of the Department who have worked closely with the Secretary for a substantial period of time and who have demonstrated outstanding leadership during that period.

MERLYN N. TRUED, Formerly Assistant Secretary for International Affairs, Office of the Secretary

For extraordinary achievement in greatly strengthening the international monetary system and in creating tools and institutions for meeting future challenges to international financial cooperation.

TREASURY DEPARTMENT



WASHINGTON, D.C.
September 2, 1966

FOR IMMEDIATE RELEASE

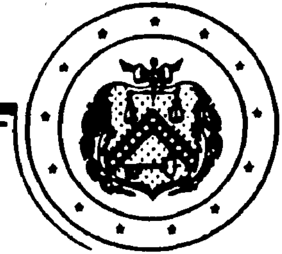
WITHHOLDING OF APPRAISEMENT ON
PLASTIC CONTAINERS

The Treasury Department is instructing customs field officers to withhold appraisement of polyethylene containers, item No. 665 F-30, from Canada, manufactured by Reliance Products Limited, Winnipeg, Canada, 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. This withholding order will apply to importations entered, or withdrawn from warehouse, for consumption after publication of the order, which will appear in the Federal Register in the near future.

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 January 25, 1966. This information was the subject of an "Antidumping Proceeding Notice" which was published on page 5527 of the Federal Register of April 7, 1966, pursuant to section 14.6(d), Customs Regulations.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
lay, September 2, 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 June 9, 1966, and the other es to be dated September 8, 1966, which were offered on August 29, 1966, were opened he Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or therets, 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 December 8, 1966		:	182-day Treasury bills maturing March 9, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.710	5.103%	:	97.148 a/	5.641%
Low	98.684	5.206%	:	97.133	5.671%
Average	98.697	5.155% 1/	:	97.140	5.657% 1/

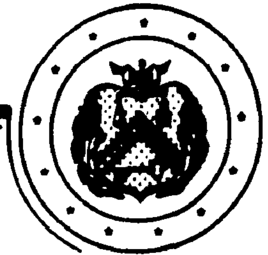
a/ Excepting two tenders totaling $1,370,000
43% of the amount of 91-day bills bid for at the low price was accepted
23% of the amount of 182-day bills bid for at the low price was accepted

, TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 29,705,000	$ 19,705,000	:	$ 28,914,000	$ 13,914,000
w York	1,382,302,000	869,187,000	:	1,390,368,000	683,473,000
iladelphia	31,284,000	19,284,000	:	12,987,000	4,639,000
eveland	25,314,000	25,314,000	:	45,574,000	36,124,000
chmond	13,006,000	13,006,000	:	8,554,000	3,554,000
lanta	40,776,000	34,776,000	:	32,105,000	17,770,000
icago	251,676,000	128,676,000	:	302,333,000	150,073,000
. Louis	48,668,000	46,018,000	:	47,738,000	36,538,000
nneapolis	21,539,000	21,539,000	:	9,299,000	4,722,000
nsas City	21,550,000	20,550,000	:	11,651,000	11,076,000
llas	22,937,000	16,937,000	:	12,832,000	7,632,000
n Francisco	90,047,000	85,047,000	:	273,251,000	30,701,000
TOTALS	$1,978,804,000	$1,300,039,000 b/		$2,175,606,000	$1,000,216,000 c/

:ludes $236,846,000 noncompetitive tenders accepted at the average price of 98.697
:ludes $117,157,000 noncompetitive tenders accepted at the average price of 97.140
ese rates are on a bank discount basis. The equivalent coupon issue yields are
10% for the 91-day bills, and 5.90% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 7, 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 September 15, 1966, in the amount of $2,302,482,000, as follows:

91-day bills (to maturity date) to be issued September 15, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated June 16, 1966, and to mature December 15, 1966, originally issued in the amount of $1,001,671,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated September 15, 1966 and to mature March 16, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, September 12, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

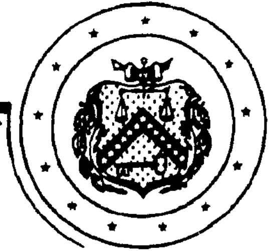
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 15, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 15, 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 9, 1966

FOR IMMEDIATE RELEASE

TREASURY ESTABLISHES ADVISORY COMMITTEE
ON CUSTOMS ADMINISTRATION

Assistant Secretary of the Treasury True Davis announced today that the Secretary of the Treasury had approved establishment of a new advisory committee which will be known as the Advisory Committee on Customs Administration.

The principal objective of the Committee is to enable the Treasury Department to maintain a regularly established mechanism of consultation with representatives of commercial and other private interests principally concerned with the administration of the Customs laws and regulations.

The members of the Committee are:

True Davis, Chairman
Assistant Secretary of the Treasury

James P. Hendrick, Vice Chairman
Deputy Assistant Secretary of the Treasury

I. M. Bomba, President
National Council of American Importers
New York, New York

Ralph Casey, President
American Merchant Marine Institute, Inc.
New York, New York

J. Bradley Colburn, President
Association of Customs Bar
New York, New York

J. Edward Day (former Postmaster General of the U.S.)
Sidley, Austin, Burgess & Smith
Washington, D. C.

F-608

Ralph Dewey, President
Pacific American Steamship Association
San Francisco, California

Lester D. Johnson
Commissioner of Customs
Washington, D. C.

Walter J. Mercer, President
National Customs Brokers & Forwarders
Association of America
New York, New York

John J. Murphy, President
National Customs Service Association
Edgewater, Maryland

William J. Taylor, President
Railway Express Agency, Inc.
New York, New York

Stuart G. Tipton, President
Air Transport Association of America
Washington, D. C.

On June 6 the Bureau of Customs completed one of the most thoroughgoing reorganizations of the entire 176 year old history of the Customs Service. This was made possible by the President's Reorganization Plan No. 1 of 1965, which was submitted by President Johnson to the Congress on March 25, 1965, and became effective 60 days later.

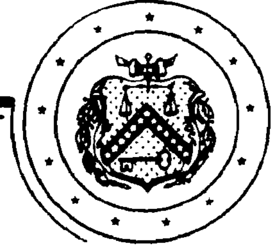
The President's Plan provided for the abolishing of the 53 Customs positions to which appointments were previously required to be made by the President. This served to establish the Customs Service organization on a career basis.

Establishment of a career organization paved the way for the regionalization of the Customs Service. Nine regional offices and 42 subordinate district offices have now replaced the 113 separate, independent field activities which previously reported to the Customs Bureau headquarters in Washington, D.C.

Assistant Secretary Davis stated that at a time when the Customs Service is undergoing such momentous changes, it is most important that the Treasury Department take advantage of the knowledge, background and experience of the various organizations and groups primarily concerned with the administration of the Customs laws and regulations. It is with this objective in mind that the Advisory Committee on Customs Administration was established and will function.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 9, 1966

FOR IMMEDIATE RELEASE

U.S. - U.K. TREATY RATIFIED

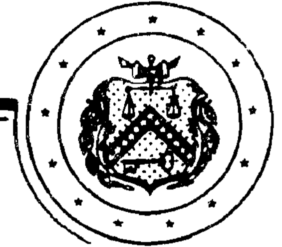
Ratifications were exchanged today of a protocol amending the United States-United Kingdom income tax convention, the Treasury Department announced today. The protocol was necessitated by changes in the British income tax structure which were enacted in 1965.

The amendments brought about by the protocol were summarized in a Treasury release of February 10, 1966. Among other things, the protocol reduces the statutory withholding tax rates on dividends to 15 percent, retroactive in the United States to January 1, 1966 and in the United Kingdom to April 6, 1966.

oOo

F-609

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 9,1966

FOR IMMEDIATE RELEASE

R. DUANE SAUNDERS APPOINTED ASSISTANT
TO THE SECRETARY OF THE TREASURY

Secretary of the Treasury Henry H. Fowler today announced the appointment of R. Duane Saunders as Assistant to the Secretary (Debt Management).

Mr. Saunders, 53, has been with the Treasury Department since 1941. Since 1959, he has been Director of the Treasury's Office of Debt Analysis.

In his new post, he will aid the Secretary of the Treasury in developing and coordinating plans and policies for debt management. He succeeds Franklin R. Saul, who resigned recently to return to private business.

Mr. Saunders was born in Bergville, Minnesota. He was graduated from the University of Minnesota in 1939. He taught economics at the University's School of Business Administration from 1939 to 1941, when he joined the Treasury Department as a fiscal economist.

During World War II, he served in the Army from 1942 to 1946, in the European Theater of Operations, rising from private to captain.

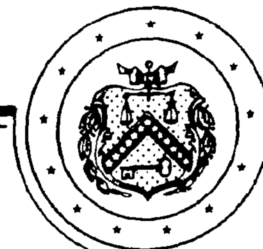
Mr. Saunders was named Assistant Chief, Debt Analysis Staff, Office of the Secretary, in 1953 and served in that capacity until he was promoted in 1959 to Director, Office of Debt Analysis. He was presented the Treasury's Exceptional Service Award in 1964.

Mr. Saunders lives at 2400 Daphne Lane, Alexandria, Virginia. He and his wife, the former Laura M. Gilman of Long Beach, California, have a son and two daughters.

oOo

F-610

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 10, 1966

FOR IMMEDIATE RELEASE

FEDERAL AGENCY FINANCING AND
PARTICIPATION SALES

Secretary of the Treasury Fowler announced today the completion of a preliminary review of all potential Federal security sales. He also announced decisions already taken that will reduce substantially contemplated offerings of participation sales and Federal agency securities to the private market and hold those offerings to a minimum for the remainder of the calendar year.

He said that this review and the decisions announced were taken pursuant to the President's Message of Thursday, September 8, and should help reduce current pressures on the money market and on interest rates.

The Treasury's announced plans will affect the flow into the private market of various Federal agency securities and participation certificates in pools of Federally owned financial assets during the balance of this calendar year. A list of the agencies covered by the new program and a list of the Federally owned financial assets projected for disposition in the fiscal year 1967 in the President's Budget Message last January are attached.

The sale of participation certificates through FNMA tentatively scheduled for September has been canceled and will not be offered at another time in this calendar year. In addition, further sales of participation certificates through FNMA will be made into the private market during the remainder of 1966 only if the market returns to more normal conditions.

Also, there will be no public offering of additional participation certificates by the Export-Import Bank for the balance of this calendar year.

F-611

The Treasury also reported that it has had several meetings with advisers in the financial community, and with officials of other Government agencies, in order to improve the design and marketability of participation certificates, and thus reduce their market impact and interest cost. A number of suggestions are being scrutinized and some of these will be adopted on the next occasion when participation sales are offered to the market.

With respect to Federal agency security issues, it is planned that, in the aggregate, the agencies will borrow no additional money in the private market between now and year-end. Any offerings to the market will be confined to the amount necessary to replace existing issues scheduled to mature. To accomplish this result, an intensive effort will be made to reduce the over-all new money needs of the Federal credit agencies to a minimum consistent with the nation's economic well-being. This effort is in line with a Presidential memorandum sent on September 9 to all Government departments and Federal credit agencies. A copy of the memorandum is attached to this statement.

Even after applying rigid standards, there is expected to be some need for additional financing by Federal credit agencies beyond the replacement of maturing issues. At least for the balance of this calendar year, it is planned to raise these additional funds, in the aggregate, through the sale of Federal agency securities to various Government investment accounts.

The interest yields available on these high quality agency securities clearly make these securities attractive investments for the trust accounts. Furthermore, such placement assists the objective of reducing strains on capital markets. Around mid-1966 an increased volume of agency issues involving considerable amounts of new money were sold, bringing rates of return in excess of their normal relationship with direct Treasury issues. In the months ahead, by providing the agencies' new money needs through securities purchases by the Government investment accounts, the type of pressure experienced earlier this year should be avoided.

In August and September, it may be noted, the Government investment accounts have already arranged to purchase a portion of the securities offered by the Federal Home Loan Banks, the Federal National Mortgage Association (to support its operations

in the secondary mortgage market), and the Federal Land Banks. Purchases of these securities by the Government investment accounts totaled $223 million.

The President directed the Secretary of the Treasury on September 8 to ask each Federal credit agency to present to the Secretary, for final review by the President, all proposals for sales of securities during the rest of this year.

In several cases, the Secretary of the Treasury already has the authority to approve the financing arrangements made by Federal credit agencies. In those cases where the Treasury does not have this authority, the President in the attached memorandum is asking that the Treasury and the Bureau of the Budget be consulted in regard to the credit agencies' lending programs and financing arrangements, and that proposed agency financing operations in the market be approved by the President.

A table attached summarizing "Federal Agency Security Issues and Participation Sales" at six-month intervals beginning with the fiscal year 1965 provides some measure of the increasing market impact of the sales of these securities which the announced program is designed to alleviate.

This table shows that agency and participation certificate sales in the first six months of this year raised more than $5 billion in additional money.

In the next four months there will be no additional money raised by agency sales in the market, and no sales of participation certificates in the market unless market conditions improve materially.

Attachments

September 9, 1966

MEMORANDUM FOR THE HEADS OF DEPARTMENTS
AND FEDERAL LENDING AGENCIES

After over five years of uninterrupted growth in our economy, we face the threat that inflation will take away some of our hard won gains. To the record level of private and public demands have been added the costs of fulfilling our commitments in Vietnam. We cannot allow these demands to thwart our objective of continued healthy growth, and we must not buy price stability at the expense of a stagnant economy.

Restraint in private and public demands is essential at this time or we may fall short in our objectives. Because we cannot fail to supply the needs in Vietnam the burden of restraint must be carried by the remainder of the public sector and by the private sector of our economy.

I have strongly urged upon labor and management the need for self-discipline. At the Federal level expenditures are being eliminated, reduced, or postponed on a case by case examination of all programs and activities, as outlined in my Message to the Congress of September 8, 1966.

Federal credit programs -- programs created to serve legitimate and important credit needs of our economy which are not adequately served by the private financial markets -- must also share in the difficult process of restraint. Monetary policy, as you know, is now restrictive. Pressures on the availability of funds are reflected in the highest level of interest rates in the last 45 years. A part of the enormous demand for funds, after being denied in the private sector, is seeking accommodation from Federal credit sources. This is to be expected, and to some extent the very purpose of the Federal credit programs is to help distribute limited resources more equitably.

But Federal credit resources cannot be allowed simply to substitute for private resources. To do this would undermine the whole objective of reducing total demands on the capital markets and pressures on interest rates.

I am therefore requesting the head of each Department and lending agency to review his operations to assure that direct loans or loans insured or guaranteed by the agency are for essential and nonpostponable needs. Each loan should be examined in terms of whether it promotes present national objectives and not just in terms of whether the loan is a sound loan. Heads of agencies that help finance private credit institutions should examine policies and operations with a view to reducing the need for the agency borrowings in the capital markets and minimizing the need for borrowing from the Treasury. Essential credit needs will have to be met, but the objective should be a sizable net reduction in demands upon credit markets.

I am further requesting agency heads to present their reviews and reduced schedule of needs to the Secretary of the Treasury and the Director of the Bureau of the Budget to insure a coordination of the programs and a reduction in credit demands.

LYNDON B. JOHNSON

List of Departments and Federal Agencies with Lending and Borrowing Activities Covered by New Program

Departments:

Agriculture
Commerce
Defense
Health, Education and Welfare
Housing and Urban Development
Interior
Labor
State
Treasury

Agencies:

Export-Import Bank of Washington
Farm Credit Administration
Federal Deposit Insurance Corporation
Federal Home Loan Bank Board
General Services Administration
Interstate Commerce Commission
National Capital Planning Commission
Office of Economic Opportunity
Small Business Administration
Tennessee Valley Authority
Veterans Administration

FEDERALLY OWNED FINANCIAL ASSETS PROJECTED IN THE PRESIDENT'S BUDGET MESSAGE IN JANUARY FOR DISPOSITION BY PARTICIPATION SALES IN THE FISCAL YEAR 1967
(In millions of dollars)

Farmers Home Administration	600
HEW: Office of Education	100
Federal National Mortgage Assoc.	520
Federal Housing Administration	-
Public Housing program	-
College housing loans	820
Public facility loans	80
Veterans Administration:	
Direct loan revolving fund	154
Loan guarantee revolving fund	106
Export-Import Bank	975
Small Business Administration	850
Total	4,205

Federal Agency Security Issues and Participation Sales
(In millions of dollars)

		Total offerings	Maturities 1/	Additional money 2/
Fiscal year 1965:				
July - Dec. 1964:	Agency securities....	$ 4,629	$ 4,539	$ 261
	Participation sales..	750	86	664
	Total..............	5,379	4,625	925
Jan. - June 1965:	Agency securities....	5,461	4,456	1,334
	Participation sales..	-	168	-168
	Total..............	5,461	4,624	1,166
Fiscal year 1966:				
July - Dec. 1965:	Agency securities....	5,623	4,856	724
	Participation sales..	900	325	575
	Total..............	6,523	5,181	1,299
Jan. - June 1966:	Agency securities....	8,643	5,901	3,476
	Participation sales..	1,700	103	1,598
	Total..............	10,343	6,004	5,074
Fiscal year 1967:				
July - Aug. 1966:	Agency securities....	2,928	2,000	582 3/
	Participation sales..	-	89	-89
	Total..............	~~2,983~~ 2,928	2,089	493 3/
Sept.- Dec. 1966:	Agency securities....	n.a.	4,196	n.a.
	Participation sales..	n.a.	333	n.a.
	Total..............	n.a.	4,529	n.a.

ffice of the Secretary of the Treasury
Office of Debt Analysis

September 9, 1966

/ Includes "puts" and redemptions prior to maturity.
/ Includes short-term financing by FNMA and TVA not shown separately: on a net basis these amounted to $172 million July-Dec. 1964, $329 million Jan.-June 1965, $-44 million July-Dec. 1965, $734 million Jan.-June 1966, $-206 million July-Aug. 1966.
In addition $140 million was taken by Federal trust funds.

a. Not available.

tail may not add to total due to rounding.

FOR RELEASE ON DELIVERY TO THE SENATE AND THE HOUSE OF REPRESENTATIVES — September 8, 1966

NOTICE: There should be no premature release of this Message to the Congress, nor should its contents be paraphrased, alluded to or hinted at in earlier stories. There is a total embargo on this message until it has been delivered to the United States Senate or the House of Representatives, which includes any and all references to any material in this message.

Bill Moyers

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

It is now time to set forth to the Congress and the American people the additional steps we consider necessary to assure the continuing health and strength of our economy.

I have been watching carefully the performance of our economy. I have consulted frequently and at great length with the wisest and most experienced advisers available to the President -- with the responsible officials in my Administration, with Members of the Congress, with leaders of business and labor and with economists from our universities.

Prudent economic policy requires timely well-considered action in the national interest. The true interest of the American people lies in uninterrupted growth at stable prices. We must always be prepared to act to protect that growth. But we must act with caution and avoid drastic changes that are not clearly required for the economic welfare. We must focus our restraint on those sectors of the economy that need urgent attention.

Certain actions have become clearly necessary to protect the interest of our people in stable prosperity and I intend to take those actions now.

I am going to cut all federal expenditures to the fullest extent consistent with the well-being of our people.

I recommend that the Congress promptly make inoperative, for a temporary period, those special incentives for plant and equipment investment and commercial construction that currently contribute to overheating the economy.

Every effort will be made to ease the inequitable burden of high interest rates and tight money.

Further longer-range actions may prove necessary to maintain balanced growth and finance the defense of Vietnam. But we will not have the necessary facts about fiscal 1967 expenditures until the Congress completes action on the remaining eight appropriation bills, and until the Department of Defense knows the size of the supplemental appropriations needed to support our men in Vietnam.

As soon as I receive these bills and defense estimates, I will again review Federal expenditures for this fiscal year. We intend to reduce or eliminate every possible federal expenditure provided in those bills consistent with the well-being of our citizens.

more

(OVER)

When the Congress votes for add-ons to the remaining eight appropriation bills, it must bear in mind that each vote to increase the budget will likely require a vote to increase the revenue later.

This Administration is prepared to recommend whatever action is necessary to maintain the stable growth and prosperity of the past five and one-half years and to pay for current expenditures out of current revenues, as we are now doing.

The Performance of Our Economy

Today the strength of the American economy exceeds all records and all expectations. For 67 months -- for five and a half years -- the trend of our economy has been steadily up:

-- True production of goods and services has grown 5-1/2% a year, putting the American economy in the front rank among the major nations of the world.

-- The spendable income of our consumers has increased 41%.

-- Nine million more workers are employed on non-farm payrolls.

-- Unemployment has dropped from 7% to 3.9%.

No nation has ever enjoyed such prosperity.

High production, high wages, high profits and low unemployment are benefits to be sought and preserved. The new problems of prosperity are much to be preferred to the old problems of recession or depression. But the great satisfaction that accompanies the solution of old problems must be tempered by full recognition of the new problems these solutions bring.

We must meet these new problems without jeopardizing past gains or present performance. And we must not revert to the pendulum economy of the 1950's.

Caution signs became visible early this year. Responsible fiscal policy required prudent action.

This Administration and the Congress acted to protect our prosperity by taking $10 billion of excess purchasing power out of the economy this calendar year:

-- $6 billion through increased payroll taxes for social security and medicare.

-- $1 billion through restored excise taxes.

-- $1 billion through graduated withholding of individual taxes.

-- $1 billion through a speed-up in corporate tax payments.

-- $1 billion through an administrative acceleration of tax payments.

Responsible fiscal policy also demanded tight control of Federal expenditures. This control has been exerted.

The fiscal 1966 budget on a national income basis -- the best measure of the economic impact of federal activity -- showed an overall surplus of about $1 billion. In the first half of calendar 1966, the annual rate of this surplus rose to $3 billion. Since January 1 of this year, we have taken in more money than we have spent.

The fiscal 1967 budget submitted to the Congress reflects the same tight control. As a result, apart from special Vietnam costs, the 1967 budget increased expenditures by only $600 million -- an increase of less than 1% over fiscal 1966. For the Great Society program enacted by the Congress, I requested an additional $3.2 billion -- but only after offsetting reductions had been made.

-- by pruning lower priority programs,

-- by improved management and cost reduction, and

-- by closing obsolete bases and eliminating unnecessary defense expenditures.

Therefore, except for the $600 million, every dollar spent on Great Society programs was secured by reducing or eliminating outmoded programs.

In recent weeks, there have been signs of developing imbalance in the economy.

As we all know, prices have been rising. To be sure, average income is rising faster than prices, and average price increases in the past 5-1/2 years are considerably less than in the previous 5-1/2 years.

Nevertheless, sustained price increases in food, services and industrial products threaten our delicately balanced structure of wage and price stability. We ask workers to restrict heir wage demands to the gains in labor's productivity. But this also requires a reasonable prospect of stable living costs.

Ours is increasingly a fixed income population. More than 20 million Americans depend on social security benefits. Millions of others live on modest private pensions, past savings, and the proceeds of life insurance policies.

Inflation imposes a cruel and unjust tax on all the people.

Inflation also saps the competitive strength of American industry in world trade. Recently, we have witnessed a decline in the trade surplus so vital to our balance of payments position. A healthy export expansion has not been enough to offset the bulging increase in imports.

In recent months, there has been an exaggerated boom in business investment. Moreover, the rapid growth of business credit has not moderated significantly, despite tight money restraints that, if intensified, threaten to halt balanced growth.

In the early 1960's, when there was unnecessary slack in the economy, and when growth was too slow, we took the steps needed to stimulate expansion and move toward full employment. But good economic policy works both ways. When total spending rises more rapidly than the economy can accommodate -- when business investment creates undue pressures -- when armed conflict overseas imposes new burdens on government -- then we must be willing to shift into lower gear and reduce inflationary pressures.

Our program early this year to remove $10 billion from the U.S. economy was a first step in this direction. But the continued and mounting pressures since that time require the second-step program I am recommending today. And I shall not hesitate to take further fiscal steps when the size of the budget and the developments in our economy indicate that they are necessary.

Program of Action

I propose the following program of immediate action for the Congress and the American people:

1. I am taking strong measures to reduce lower priority federal expenditures.

Determination of the exact amount of reduction in that limited portion of the fiscal 1967 budget under direct Presidential control must await Congressional action on the remaining appropriation bills. Our best present estimate is that a reduction of 10% -- approximately $3 billion will be required from that portion of the budget.

Bills already passed by both Houses of Congress -- some unanimously and others by large bipartisan majorities -- have added approximately $2-1/4 billion to the spending authority I requested from this session of the Congress. If bills passed by one or the other of the Houses of Congress, or now before Congressional Committees, are finally approved in their present form, they will add almost $4 billion to Federal spending authority and $2 billion to spending in the current fiscal year. Members of the Congress will, by holding remaining appropriations within the amount of my requests, limit the amount of additional revenue that may be required next year.

Although the costs of the Vietnam conflict are uncertain, if this conflict extends beyond the current fiscal year, we will be forced to order additional material and equipment. To be on the safe side and to support our men in Vietnam, we must act on this contingency.

I have already directed that lower-priority Federal programs be reduced by $1.5 billion in fiscal 1967.

Federal civilian agencies have been directed to defer, stretch out, and otherwise reduce contracts, new orders and commitments. Each major agency has been given a savings target, with orders to meet that target.

I am prepared to defer and reduce Federal expenditures:

-- by requesting appropriations for Federal programs at levels below those now being authorized by the Congress,

-- by withholding appropriations provided above my budget recommendations whenever possible, and

-- by cutting spending in other areas which have significant fiscal impact in 1967.

more

My 1967 budget called for total expenditures of $112.8 billion. Of this amount, $58.3 billion is for Defense. Of the remaining $54.5 billion, payments fixed by law or otherwise uncontrollable -- such as the civilian pay, interest on the public debt, veterans' compensation and pensions, public assistance payments, agricultural price supports, and payments on prior contracts -- account for $31.5 billion. This leaves only some $23 billion of expenditures subject to immediate Presidential control.

The corresponding appropriation total (new obligational authority) is $31 billion. The savings I have directed must come from that total. They will not be easy to achieve.

But at a time when individual incomes and corporate profits are at unparalleled levels, a compassionate and mature people will not make the poor carry the burden of fighting inflation. For such a policy would be neither good economics nor social justice.

During the calendar year 1967, the product of the American economy will increase by some $50 billion. Before the end of this year, we will be producing at a rate of $750 billion -- 3/4 of a trillion dollars -- a year. And the Federal budget has been claiming a declining share of that product. The Federal Administrative budget -- the best measure of the size of Federal programs that are not self-financed -- has declined from 17% of the gross national product in fiscal 1955 to less than 15% in fiscal 1966. If we had spent the same percentage as in 1955, our Administrative budget would have been $15 billion higher last year.

I intend to conserve and save public outlays at every possible point. But it would be shortsighted to abandon the tasks of educating our children, providing for their health, rebuilding the decaying cities in which they live, and otherwise promoting the general welfare.

Postponed investment in buildings and machines can be made at a later date without serious injury to our welfare. But we can never recapture the early years of a child who did not get the head start he needed to be a productive citizen, or the lost opportunities of the teenage dropout who was never given a second chance. And we can never repair the ravages of a disease that could have been prevented, or recall the lives lost by cancer that might have been cured.

The fiscal measures which have given us the unparalleled prosperity of the past 5-1/2 years were a product of the partnership of the Congress and the Executive. The Great Society programs, placed on the statute books of this country by the overwhelming majority of the Congress, also reflect our partnership to promote the welfare of the people of this country. So, now, we must work together to assure that the prosperity and social progress of the past five and a half years continue.

2. I recommend that the Congress make the 7% investment tax credit inoperative, effective September 1, 1966, to become operative again on January 1, 1968.

The temporary suspension should apply to all orders for machinery and equipment placed on or after September 1, 1966, and before January 1, 1968, regardless of the date of their delivery.

The suspension should be across-the-board, without exception, applying effectively and equitably to all investing industries. No special treatment or special exclusions should be made for this brief period of suspension.

more

(OVER)

One of the great accomplishments of recent years has been the mighty upsurge of business investment in plant and equipment, to expand and update our industrial capacity and to provide more jobs for our workers. This gratifying surge is now, however, proceeding too swiftly. For the past three years, this investment has been rising more than twice as fast as our Gross National Product.

Our machinery and equipment industries cannot digest the demands currently thrust upon them. We see symptoms of strain in growing backlogs, accelerating prices and emerging shortages of skilled workers. There is a ten-month average backlog on machine tool orders alone. On many machine tools, the order backlog exceeds 15 months.

Our capital markets are clogged with excessive demands for funds to finance investment. These demands bid interest rates higher and higher, and draw too large a share of credit from other important uses.

The current machinery and equipment boom reflects many incentives and supports -- the reform of depreciation guidelines, the investment tax credit, reductions in corporate income tax rates, the dramatic strengthening of consumer markets, and the stepped-up flow of defense orders.

I am asking Congress today to make inoperative for 16 months one of the special incentives in order to moderate the growth of capital spending.

Our high employment, high profit economy will still provide abundant incentive for growth in our capacity sufficient to produce the goods we need, for modernizing facilities, and hence for maintaining a strong international competitive position.

A temporary suspension of the investment credit will relieve excessive pressures on our capital goods producers and on our financial markets. We can then look forward to a smoother flow of investment goods -- at stable costs both for machinery and for money.

The special credit was recommended as a bonus for investment to help move the economy forward. This recommendation reflected the commitment of this Administration to a high-investment, high-research, high-growth economy. This is a firm long-term plan that we intend to carry out. A high level of business investment is indispensable to our prosperity and to our economic growth. The bonus of the investment credit has proved itself to be too effective a promoter of such investment to be abandoned. We shall need this bonus over the years ahead and it should be restored.

Now, however, our problem is to keep investment within safe speed limits. We should not continue to press on the accelerator. We should not now provide a bonus to do something that we do not want done now and will very much want and need to be done later on.

3. <u>I recommend that the Congress suspend until January 1, 1968, the use of accelerated depreciation on all buildings and structures started or transferred on or after September 1, 1966.</u>

Just as machinery and equipment outlays are stimulated by the investment tax credit, construction of commercial and industrial buildings is advanced and encouraged by accelerated depreciation. To assure that safe speed limits are applied to all forms of investment, we should now remove this special incentive.

more

Today, it is contributing unnecessarily to an inflation of building costs and to the pressures on financial markets, which are reflected in high interest rates. In the past 12 months, commercial and industrial construction was 27% higher than during the previous year.

In the last few months, certain areas of private building have been caught in the vise of tight money and high interest rates. The suspension of accelerated depreciation is surely a more effective and equitable way to hold construction within bounds.

The logic and equity of restraint thus require suspension of accelerated depreciation. In this way, we can apply restrictive measures evenly to the various types of investment and through a broad and balanced use of our tools of economic policy.

4. I urge the Federal Reserve Board, in executing its policy of monetary restraint, and our large commercial banks to cooperate with the President and the Congress to lower interest rates and to ease the inequitable burden of tight money.

The Secretary of the Treasury has reviewed all potential Federal security sales and is taking action to keep them at the minimum in the months ahead. This should help reduce current pressures on the money market and on interest rates.

I urge the Congress to act promptly on pending legislation to prevent competition for deposit and share accounts from driving up interest rates.

As more of the burden of restraint is assumed by fiscal measures -- by elimination of special stimulants to business investment, higher taxes and reduced or postponed Federal spending -- we should take further action to reduce the burdens imposed on the American people by tight money and high interest rates. Present monetary measures impose a special hardship on homebuyers and small businessmen.

Banks should handle money and credit equitably and without extracting excessive profits. They should rely less on high interest rates to price borrowers out of the market and more on the placing of appropriate ceilings on credit.

I am responding to the requests of the financial community to ease the great pressure on money markets. The Federal Reserve Board and our large commercial banks must now recognize that we are determined to restrain inflationary pressures by fiscal and budgetary measures. I ask, in turn, that the financial community seize the earliest opportunity to lower interest rates and more fairly allocate the existing supplies of credit.

I have been assured that every effort is being made to detect any easing of inflationary pressures in order that monetary policy can be adjusted quickly and adequately to maintain stable and sustainable economic growth.

Preserving Economic Freedom

The demand for goods, including capital investment must be kept roughly in balance with the ability of our economy to meet this demand. Within this general strategy for a free economy, we seek the cooperation of employers and unions in maintaining price and wage policies consistent with stability.

more

(OVER)

We ask that wage increases remain within labor's productivity gains. We ask that industry forego price increases where there are no increases in costs and reduce prices when costs fall.

The alternative to this strategy is the endless pursuit of wages by prices, and prices by wages, to the common disadvantage of all participants and the nation as a whole.

I ask American business to:

-- Base demands for credit on genuine needs, not on speculation of future scarcity or higher cost.

-- Maintain an inventory position based on current requirements, not on fears or hopes that prices will be higher later on.

-- Postpone investment projects that are not absolutely necessary at this time.

-- Set prices on the basis of real costs, not imaginary future costs that build in an assumption of inflation.

-- Limit profits to those appropriate for a steadily expanding economy.

I ask American labor to:

-- Avoid wage demands that would raise the average level of costs and prices in the economy.

-- Adopt work rules and standards for entry into its trades that are appropriate for a continuing full-employment economy.

-- Cooperate with business to raise productivity so that pay increases will be matched by production increases.

The steps I have taken and recommended today are needed to keep the American economy on the safe course of stable prosperity it has enjoyed for the past five and one-half years.

Decisions made elsewhere will influence our defense needs in Vietnam. Because we cannot control or predict these outcomes, we cannot blueprint our fiscal measures in the months ahead. But should additional fiscal measures be required to preserve price stability and maintain sound fiscal policies, I will recommend them.

By continuing on a prudent course in our private and public policies and by preserving our capacity for stable economic growth, we can look forward to continuing progress. We can make that progress within the framework of a free economy. We do not want to resort to controls. If we take the necessary actions, next year should bring new heights in consumer living standards, in savings for the future, in our progress toward the Great Society.

I urge the Congress to exercise prudent restraint in appropriating public funds and to act promptly on the legislative proposals I have set forth in this message.

LYNDON B. JOHNSON

THE WHITE HOUSE,

September 8, 1966.

# # #

TREASURY DEPARTMENT

WASHINGTON. D.C.

ELEASE 6:30 P.M.,
y, September 12, 1966

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, eries to be an additional issue of the bills dated June 16, 1966, and the other s to be dated September 15, 1966, which were offered on September 7, 1966, were opened e Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or theres, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The ls of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing December 15, 1966		:	182-day Treasury bills maturing March 16, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.657 a/	5.313%	:	97.016 b/	5.902%
Low	98.610	5.499%	:	96.992	5.950%
Average	98.623	5.447% 1/	:	97.004	5.926% 1/

a / Excepting one tender of $240,000; b/ Excepting one tender of $300,000
72% of the amount of 91-day bills bid for at the low price was accepted
8% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 16,391,000	$ 16,391,000	:	$ 24,371,000	$ 5,439,000
York	1,361,810,000	807,910,000	:	1,707,581,000	802,070,000
ladelphia	35,015,000	23,015,000	:	17,408,000	8,927,000
veland	31,796,000	31,796,000	:	42,610,000	20,304,000
hmond	12,555,000	12,555,000	:	6,674,000	6,674,000
anta	57,879,000	49,369,000	:	33,390,000	19,612,000
cago	320,556,000	158,398,000	:	318,434,000	47,610,000
Louis	46,297,000	38,933,000	:	28,715,000	16,923,000
neapolis	21,959,000	21,391,000	:	20,686,000	15,186,000
sas City	32,093,000	32,093,000	:	26,533,000	19,455,000
las	20,017,000	15,017,000	:	15,906,000	10,446,000
Francisco	103,477,000	93,337,000	:	276,969,000	27,425,000
TOTALS	$2,059,845,000	$1,300,205,000 c/		$2,519,277,000	$1,000,071,000 d/

ludes $282,468,000 noncompetitive tenders accepted at the average price of 98.623
ludes $175,641,000 noncompetitive tenders accepted at the average price of 97.004
se rates are on a bank discount basis. The equivalent coupon issue yields are
0% for the 91-day bills, and 6.19% for the 182-day bills.

.2

TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
ON H. R. 17607
MONDAY, SEPTEMBER 12, 1966, 10 A.M. EDT

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to discuss the program presented in the President's Message of September 8, 1966 and to present the Treasury's views on the bill before you, H. R. 17607. I wish also to thank the Committee for its promptness in holding these hearings. The situation calls for action, however inconvenient the timing.

I favor the prompt enactment of H. R. 17607 suspending some of the existing special tax incentives to investment during the next sixteen months because:

(1) It will contribute to a restraint of inflationary developments that are proving disruptive of the financial markets and placing excessive strain on the capital goods industries.

(2) It will promote a more sustainable rate of balanced economic growth in the next sixteen months and thereafter.

F-613

(3) It will suspend special fiscal stimulants to investment, and thereby support a policy of monetary restraint without incurring the burdens and without running the risks of excessively tight money and high interest rates.

(4) It will complement other measures enacted by the Congress or pending before it and being undertaken through administrative action to reduce upward pressures on interest rates and minimize discriminatory impact of tight money and high interest rates on the housing sector of the economy.

I. The Legislative Proposal in the Perspective of the Overall Program

Our economy and the financial system that services it, increasingly strained by the requirements of war and a rapidly expanding private sector, are subject today to at least three clearly discernible demand pressures:

-- in the money and financial markets, excessive demands for credit and monetary restraint together have created severe tightness and a sharp rise in interest rates, with highly selective impact on several sectors particularly single family housing;

-- in the market for capital goods, the ever mounting flow of new orders by business firms coming on top of an unprecedented rate of outlays for plant and equipment is generating rising prices, rising wage rates and shortages of some skilled labor, and is augmenting the large demands for capital from banks and the securities market;

-- the rising rate of government expenditures, Federal, State and local, highlighted by steadily expanding defense and public works outlays is adding steadily to aggregate demand at a high rate.

These three sources of pressure are interrelated and reinforcing. Accelerating business spending breeds demands for credit from banks and for financing in the capital market. Higher Government spending also generates credit demands -- by the Government itself, and by private firms which receive Government orders and work on borrowed funds to fill new contracts. And tight money itself causes additional Government spending, particularly to help finance areas of important economic activity such as homebuilding from which the supply of private capital has been diverted.

The program contained in the President's Message is designed to deal with all three pressure points.

This program is primarily economic and financial in its objective and thrust. It represents, I believe, the most carefully chosen and prudent means, consistent with preserving stable economic growth within the framework of a free economy, to ease the strain of the pressures described.

The spokesmen for the Administration are here today to request your action on one legislative proposal recommended in the program outlined in the President's Message, which is interrelated with the other elements of that program.

This proposal is not a tax reform proposal -- it is temporary in design and purpose.

It is not a revenue-raising proposal in purpose or objective; any revenue aspects are only incidental. So we do not come here today with any new estimates of revenues or expenditures for fiscal 1967.

The proposal is basically an anti-inflationary measure designed to relieve the pressures, clearly observable in

the money markets and capital goods sector, which are producing unusual strains, the highest interest rates in forty years and a perceptible trend toward a general condition of economic instability.

Before commenting on the details of this legislative proposal, let me relate it to the balance of the program.

As regards action to affect the credit market, the proposed suspension of special incentives to undertake major programs of business investment should serve to moderate business needs for financing.

In addition, the President's directive to me to review all Federal security sales and present them to the President for approval will result in lessening the burden of Federal finance on the markets. The President's memorandum to Federal Departments and agencies of September 9, calling for careful and thorough pruning of Federal lending and borrowing activities, should reduce aggregate Federal credit demands on the private market.

It has already been decided to cancel the sale of FNMA participation certificates tentatively scheduled for September, and to have no FNMA participation sale in the

market for the rest of 1966 unless market conditions improve. Nor will there be any Export-Import Bank sale of participation certificates in the market in the rest of this calendar year. Market sales of Federal agency securities, meanwhile, will be limited in the aggregate to an amount required to replace maturing issues, while new money, to the extent genuinely needed, will be raised through sales of agency securities to Government investment accounts.

I am submitting for the record a copy of a Press release issued Saturday, September 10, announcing these decisions pursuant to that portion of the President's Message.

Another important ingredient of the President's program is the passage of legislation to give the bank regulatory agencies and Federal Home Loan Bank flexible authority to halt and hopefully reverse the harmful process of excessive interest rate escalation in the field of consumer savings. The favorable House action last Thursday on H. R. 17255 is an important step in this direction.

The announced program for reducing Federal expenditures for fiscal 1967 is yet another related measure to minimize the drain of federal financing on the credit market in

addition to reducing aggregate demand. Since the Director of the Budget will deal with this subject in detail, I will only observe that the President made clear his firm determination to hold down all lower priority expenditures by means of deferrals, stretching out the pace of spending and otherwise reducing contracts, new orders and commitments -- a policy and program with which I have been actively and affirmatively concerned from the initial preparation of the January Budget.

I would like to relate this policy and program of the President to hold down Federal expenditures to the legislation before you.

I am mindful of the fact that many members of this Committee, both Majority and Minority, have expressed their disinclination to consider any tax measure for the purpose of increasing revenues unless there have been firm efforts to hold down expenditures.

In my view, the program presented to you today is consistent with that position. First, it incorporates very specifically in point (1) of the President's Message the expenditure reductions Director Schultze will discuss. Of

course, any final precise description of the amount and nature of the spending cuts, beyond the recitals in the President's Message and the Director's Statement here today, must await action by the Congress on the eight major appropriation bills pending before it.

Since the time it became readily apparent to all that the appropriation process of the Congress was likely to result in appropriations substantially in excess of the President's budget, it has not been possible to develop and execute in complete detail an expenditure control program for the fiscal year 1967 until final action on the major money bills is complete. Give us the bills and we will do the job.

Second, there is no inconsistency between the President's legislative proposal and the Members' position that I have referred to, because H. R. 17607 is not offered as a revenue or tax increase measure. Its purpose is clearly and simply to suspend a stimulant to forces that are proving inflationary in the current economic situation.

I come now to the specifics of the President's legislative recommendation, as reflected in H. R. 17607, which would

suspend temporarily the 7 percent investment tax credit for machinery and equipment and the option to elect accelerated depreciation on buildings, for the period September 1, 1966 through December 31, 1967.

As members of this Committee are well aware, I have always been a strong exponent of the investment credit. When I appeared before this Committee last January in connection with the Tax Adjustment Act of 1966, I was specifically questioned as to whether consideration had been given to repealing the 7 percent investment credit in developing the President's 1966 tax program. I then answered as follows:

> "The first observation I would want to make is that one of the great advantages that we have now, and we will have in the period ahead, is the continued expansion of this Nation's productive capacity and a continued modernization of existing capacity and capacity that may be added. Therefore, I think we want to be very chary of restraining or holding back the enlargement of this productive capacity to meet growing requirements, whether they be for defense or for civilian use."

When asked whether I thought the investment credit should be a fixed part of the tax law, I further commented:

> "I think that in addition to the stimulation effect, which was one of the considerations, there was another, and perhaps a more basic consideration, that attaches to the investment credit. From a long-term structural

> standpoint, wholly apart from cyclical considerations, it was desirable to have a feature of our tax law which encouraged additions to productive capacity and continuing modernization of industrial capacity in view of the problems of international competition and in view of the fact that the existing setup had been marked by a rather, you might say, stalled industrial capacity. Plant and equipment expenditures had been pretty well stalled at a given level for a number of years. It was felt that this was a structural condition and that something ought to be done of a permanent and enduring nature that would encourage the results that I think we have achieved."

Mr. Chairman, our experience to date has justified the faith I had in 1962 in the efficacy of the investment credit, and my belief that it should become a permanent part of our tax structure. Since then industrial production has increased three times as fast as in the previous decade, real business fixed investment has increased nearly four times as fast, and our economic growth generally has far surpassed its previous rate. This remarkable achievement is not due solely to the investment credit, but I firmly believe the investment credit has contributed substantially to it. Moreover, looking to the long-term future I am convinced that the encouragement provided to business by the credit to modernize and expand its use of capital equipment is essential to maintaining full employment with stable

prices, and to keep our industry competitive with foreign goods. The President and his Administration fully share these views.

It is therefore, as I am sure you understand, only with considerable reluctance and after very careful study that we have reached the conclusion that suspension of the investment credit is an appropriate measure at this time. I stress suspension and not repeal since the credit should be regarded, as President Johnson's Message indicated, as an essential and enduring part of our tax structure.

Not only do I regard the investment credit as a permanent structural component of our tax system but also one that should be suspended only in times of active hostilities at least on a scale such as characterizes the present situation. Even under such circumstances I would, as past attitudes have made clear, be chary of suspending the investment credit unless the combination of a rapidly expanding civilian economy and increasing and special defense needs made this course compelling. I would be opposed to treating the investment credit as one of many countercyclical devices to be suspended and restored with the normal ups and downs in our economy.

The present situation is unique and was quite unforeseeable when the credit was adopted and stress was put -- and properly so -- on its permanent character. We then contemplated a peacetime economy and thoughts of a country engaged in hostilities on the present scale were far from our minds. But hostilities can cut ruthlessly across many plans and procedures designed to meet problems of a country at peace. We are deeply committed to an extensive military operation in Southeast Asia which shows no signs of early termination. Its effects on our economy are clearly evident. We are also confronted with a monetary situation of almost unparalleled tightness, which is producing distortions in our economy and the highest levels of interest rates in more than 40 years.

Early in the year when the question of suspending the credit was raised in the Senate, we hoped that this change in the law could be avoided. In March the President invited to the White House more than 100 chief executives of companies which, together, are responsible for making a large portion of business plant and equipment outlays. At that dinner the President made a strong personal appeal to

those present to carefully review their investment plans with the objective of screening out and setting aside for deferral whatever projects and expenditures they possibly could. Many of the executives did just that and wrote letters to the President confirming their plans to moderate their investment outlays.

Total plant and equipment outlays, however, continued to surge upward. The latest Commerce-SEC Survey released to the public early last week, based on reports from business in late July and August, continued to forecast a 17 percent rise in plant and equipment outlays for this calendar year just as it did last spring. It is true that the rate of expansion forecast for the second half of 1966 is smaller than the actual rate for the first half. But this had been forecast all along. It is also true that actual increases for the last twelve quarters of this series have turned out to be higher than the forecasts. The real point is that the level of investment is simply too high under present circumstances and it is taking place despite developments in financial markets and sharp increases in interest rates paid by corporate borrowers, factors which some thought would restrict capital expenditures. Undoubtedly

the increase would have been larger without the influence of the President's appeal for restraint.

It would be dangerous to let the economy proceed on its present course without a release from these pressures that suspension of the investment credit and the companion measure, accelerated depreciation on buildings, will help accomplish along with the remainder of the program set forth in the President's Message.

The unforeseeable escalation of Vietnam in mid-1965 gave a strong upward thrust to the demand on our resources. In response, the policy of the Administration has been to take fiscal steps designed to meet conditions as they unfolded. This was exemplified in the Tax Adjustment Act of 1966 which applied the degree of restraint that conditions and prospects at that time required. Similarly, we are now proposing another appropriate step again responsive to prevailing conditions. In view of the uncertainties with which we still are confronted, we cannot offer blueprints for future programs. The only prudent course is to maintain a flexible, step-by-step approach.

II. Specific Background For The Legislative Proposal

Our economy is now operating close to the limits of its productive powers. It is being called upon not only to meet emergency defense requirements associated with military operations in Southeast Asia, to support civilian activities of Federal, State and local government, and to produce an enormous flow of capital goods for business. It is at the same time providing the American consumer with the highest standard of living the world has ever known.

The strain on our economic resources is most acute in the field of credit referred to above and in business investment, where the high level of activity has created a substantial excess of demand over supply, which will be augmented by future orders with consequent additional strain on money markets.

The high and rising levels of business investment spending have been a main cause of credit tightening, mounting interest rates, and diversion of financial -- and hence real -- resources away from other important areas of economic activity.

The resulting process of interest rate escalation -- the bidding up for a limited supply of funds -- deserve special comments here, because the muting of this process is a major part of the President's program to restore and maintain stable financial markets.

For several years of business expansion, 1961 through 1965, credit expanded with relatively little change in interest rates except in short-term rates. Credit demands grew, but the expansion of savings and bank credit were able to accommodate this expansion to the great benefit of the economy, which enjoyed rapid growth. A major means by which banks were able to participate in this process of credit expansion was through amassing very large gains in time deposits, essentially by simply bidding for those deposits and then making the funds available for loans to business and other borrowers.

What had been from 1961 to 1965 an orderly process of credit expansion and real economic expansion acquired in 1966, however, some aspects of an unhealthy scramble for liquidity and credit, in which interest rates have shot up and credit has flowed in a lopsided fashion. Businesses,

particularly corporate business, have taken a very large share, while the mortgage market has had to do with less. This result has emerged because total credit demands increased while supplies were being held back by a more restrictive monetary policy.

To meet heavy business demands for loans, the banks this year have bid up the interest rates on certificates of deposit, and due to more restricted credit availability that bidding had to be more aggressive than before. In addition, banks have made more room for business loans by selling their holdings of Treasury issues or allowing those holdings to mature without being replaced with other Treasury issues. In this entire process, interest rates on Treasury issues and other securities rose.

Indicative of business demands on the banks, commercial bank loans to business rose at an annual rate of 22 percent in the first seven months of this year, while bank loans other than business loans rose at about a 7 percent annual rate, and bank investments registered no net change at all.

At the same time, business borrowing was exerting a substantial direct impact in the capital markets. Net funds

raised through corporate bond issues in the first half of this year were at an annual rate some 80 percent heavier than the rate for all of 1965. Clearly, businesses have had to rely very heavily on external financing for their large investment outlays, despite the substantial growth in their internal cash flow. And just as clearly, this absorption of credit by business has been reflected in a smaller supply of funds for the home mortgage market, and has begun to threaten the supply of funds for State and local governments and for small business.

This is not to say that business borrowing has been the only source of pressure on the markets, but it has been a very prominent one. Treasury borrowing has not been a major factor; holdings of Treasury debt by the public (that is, apart from trust account and Federal Reserve holdings) was $4.1 billion lower on June 30, 1966 than a year earlier. Increased Federal agency borrowings and participation sales did exert some market pressure, which our new program is now designed to minimize. I might mention, too, that much of the increase in agency debt during the first half of this year reflected borrowings to fill credit needs in the mortgage

area that arose essentially because of the dearth of funds for this purpose in the private market.

The strain on the credit market caused by our high rate of business investment has been paralleled by strain on our productive resources available for capital goods. Machinery and equipment producers are simply unable to keep their production up to the pace of their incoming orders. In every single one of the last twelve months order backlogs for machinery have grown larger, accumulating to a 27 percent increase for the whole period. In just the past six months the backlogs have increased 15 percent. The backlog of metal cutting machine tool orders alone now equals more than ten months shipments.

A crucial factor in limiting the production of machinery and equipment is the acute shortage of skilled workers. In the second quarter of this year the unemployment rate in non-electrical machinery was down to 1.9 percent, and the average work week of 44 hours is now the longest in any manufacturing industry. The BLS reports the machine tool industry as having the tightest manpower situation in the country. Apparently a handful of occupations account for

two-thirds of all the hard to fill jobs. These are machinists, machine shop workers, mechanics and repairmen, welders, tool makers and die sinkers, and pattern and model makers.

As a result of this excess demand and very tight supply condition, prices of machinery have been spurting upward. Electrical machinery prices have risen at a 4 percent annual rate so far this year, which incidentally is the reverse of a long downward trend that persisted through 1965. Prices of metal-working machinery have risen at a 7 percent annual rate in the first seven months of this year. In the period from January to July, price increases exceeded a 10 percent annual rate for a number of important groups of machinery products: metalworking presses (14 percent), precision measuring tools (12 percent), transformers, and power regulators (12 percent), and wiring devices (10 percent).

Pressure on prices, the supply and wages of skilled labor, and on the financial markets has also been generated by the strong pace of construction other than single family homebuilding. In the past 12 months commercial and industrial construction has averaged 12 percent above the preceding year.

This high level of activity has put upward pressure on wage and material costs in the construction industry and contributed to scarcity of skilled labor. Construction prices have recently accelerated, and wage rates of construction workers have accelerated even more so. Moreover, if measures were to be taken to relieve credit stringency without at the same time reducing the stimulus to construction, continued upsurge in construction could well be the outcome.

In view, then, of the current boom condition in the market for capital goods and construction other than homebuilding, a moderation of the demand in these markets will exercise a stabilizing influence on the economy. This needed moderating influence can be accomplished by temporarily suspending the investment credit on machinery and equipment and accelerated depreciation on real estate. The bill before you carries out this proposal.

III. Specific Elements of the Legislative Proposal

The bill would temporarily suspend the investment credit allowed by section 38 of the Internal Revenue Code. The suspension would apply to (i) property acquired during the

suspension period, (ii) property ordered during the suspension period, and (iii) property, the physical construction of which begins during the suspension period. The suspension period would begin on September 1, 1966, and end on December 31, 1967.

Machinery and equipment acquired during the suspension period pursuant to a binding contract made by the taxpayer prior to the beginning of the suspension period would not be affected by the suspension. Also, property, the physical construction of which commenced prior to the beginning of the suspension period, would be unaffected. Investment credit carryovers from periods prior to the suspension period may be utilized during the suspension period only to the extent that they would have been allowed had there been no suspension.

The bill would limit depreciation to the straight-line method for real estate (not qualified for the investment credit) acquired, ordered, or whose physical construction is begun during the suspension period. The suspension period for this purpose would be the same suspension period used for the investment credit. Property acquired during the suspension period pursuant to a binding contract made

prior to the beginning of the suspension period and property, the physical construction of which commenced prior to the beginning of the suspension period, would be unaffected.

It is to be noted that the suspension covers orders and commitments in the suspension period and is not limited to deliveries or installations in that period. Careful study has indicated that this is a feasible approach. However, I want to emphasize that this does not imply any basic change in the normal operation of the investment credit. That is, the taxpayer will still be entitled to take whatever credit against tax liability that is permitted to him only after delivery or installation of machinery or equipment takes place.

The reason for applying the suspension to orders is the greater scope of its economic impact. If the suspension applied only to installations, it would have no impact at all on orders placed in the suspension period where delivery of the equipment would occur after the termination of the suspension period. In these cases the demand on current use of resources would not be relieved at all. The activities of the firms producing the equipment would go ahead unabated and their flow of orders would continue undiminished.

On an orders basis, on the other hand, suspension would affect not only all items ordered and delivered in the suspension period but also items ordered for delivery after the suspension period. (There would be no essential difference in treatment of items ordered on binding orders prior to September 1, 1966, since these orders would be excepted from the suspension under either method.)

IV. Effects of the Legislative Proposal

Just as the enactment of the investment credit provided a strong incentive to investment, so its suspension would sharply reduce the incentive to invest during the suspension period. Moreover, the fact that the suspension would be _temporary_ adds a reinforcing incentive to defer capital projects until the credit is restored. For example, on typical investments in machinery and equipment the investment credit raises the after-tax rate of return from 10 percent to 12 percent or 13 percent. Thus, when the credit is suspended, the investor is offered the difference between earning 10 percent if he begins the project during the suspension period, compared to earning 12 to 13 percent if he defers launching the project until after the suspension period.

As a consequence of this effect on incentives, the current demand for capital goods should be significantly moderated. In the first instance, the impact should show up in a level of orders below what would have otherwise been the case. For those items which can be ordered and delivered in a short space of time -- such as trucks, office equipment, store fixtures and air conditioners -- the effect of a diminished order flow on investment expenditures and on activity by the producers of the equipment should be quite rapid.

When the order to delivery period is longer (one year or more) the moderation in the order flow should still have a prompt and favorable effect in relieving pressures on our scarce resources. The production plans and activity of the capital goods producers respond promptly to a change in their order inflow. Their incentives to scramble for and hold on to skilled labor and scarce materials will be diminished and their accumulation of inventories of goods in the various stages of production will be slowed down. As a result the upward pressures to prices and wage rates should be held down. Even in those cases where abnormally

large order backlogs prevail, any reduction in the inflow of new orders should have an influence on prices before there is any effect on production.

By moderating the demand for investment goods, suspension of the investment credit will make a marked contribution to relieving pressure on money and financial markets. True, suspension of the credit does mean some reduction in the cash flow of business firms putting them under a need for funds to replace the loss of the investment credit on those orders which are not deferred. But this will be more than offset by the reduction in credit requirements resulting from the deferrals of orders for machinery and equipment purchases induced by the suspension.

In moderating investment demand at this time, suspension of the credit will also help to improve our current or short term balance-of-payments position. The high levels of investment demand have contributed to a rise in our imports relative to our exports. Imports of capital equipment have shown a large increase in the first half of 1966 over a comparable period of 1965 -- 44 percent -- and there is evidence that our exports of machinery have been held down

because United States producers have given priority to domestic orders. For example, while foreign orders in the machine tool industry have run well above a year earlier, shipments are lagging behind last year totals.

In part, the moderation of demand for capital goods induced by suspension will be reflected in a reduced output of capital goods. To the extent that this is the case, it implies some temporary sacrifice of growth of capacity, and some slowdown in the rate of plant modernization and productivity increases. Indeed it is these benefits from the investment credit that I have stressed and value highly. Nevertheless, I believe that this temporary sacrifice of long-run benefits is in the present case more than balanced by the immediate benefit of tempering the unique, short-run inflationary pressures that now confront us.

Moreover, there is evidence that at present investment is proceeding at a rate that might not be sustained in the long run. Therefore, it is desirable to slow it down now, so that it will proceed at a more even pace in the long run. I am confident that when the investment credit is reinstated there will follow a certain catching-up period of accelerated

investment by business. This will occur at a time when there is less strain in the economy than at present, and the loss of capacity due to suspension of the credit will thus only be temporary and not permanent.

Suspension of accelerated depreciation on buildings will temporarily remove this special incentive to construction, and in a manner parallel to suspension of the investment credit will offer a strong inducement to defer the launching of construction projects until after the suspension has terminated. Thus it will contribute to restraining inflationary forces by reducing the pressure from this source of demand on money and credit markets, and on markets for skilled labor and construction materials. This will be particularly favorable to the single family homebuilding industry -- which has borne the brunt of the tight money and high interest rates we have been experiencing. Industrial, commercial and apartment construction are closely competitive with single family home construction both in financing requirements and use of labor and materials.

Conclusion

In conclusion, I should like to emphasize that H. R. 17607 is an essential part of the President's program to mute inflationary pressures. It is designed to permit the nation to meet its defense requirements while, at the same time, it continues the stable growth and prosperity which we have enjoyed for the past 5-1/2 years. Hence, I strongly urge that this Committee approve the bill as promptly as possible.

STATEMENT OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE
TUESDAY, SEPTEMBER 13, 1966

Mr. Chairman and Members of the Committee:

I am grateful for the opportunity to appear before your committee again on the question of excessive interest rate competition for savings. In my opinion, there has been no lessening of the need for legislative action in this area since we met some weeks ago. Since then there has been a sharp decline in housing starts and further indication of cutbacks in lending commitments. Fortunately, Congressional action has increased the financial resources which FNMA can make available to the housing market. But, we all know that a heavy burden may continue to rest on the homebuilding and home financing industries.

As I stated before your committee in August, the legislative proposals before you are not a panacea for all the difficulties facing the financial markets, or particularly the mortgage market, at this time. The significant difference between the present situation and that of a month ago is, of course, the recent announcement of the President's program to assure the

continuing health and strength of our economy. The present legislation is an important ingredient of that program.

As you know, the President has proposed sizable reductions in lower priority Federal expenditures and temporary suspension of certain investment incentives. These fiscal actions would substantially reduce the existing pressure on the money and capital markets. In addition, a careful and thorough pruning of Federal lending and borrowing activities will reduce aggregate Federal credit demands on the private market. Last Saturday, Secretary Fowler announced the results of a preliminary review of all potential Federal security sales. During the rest of this year there will be no new money raised by Federal agency sales in the market and no sales of participation certificates unless market conditions improve materially.

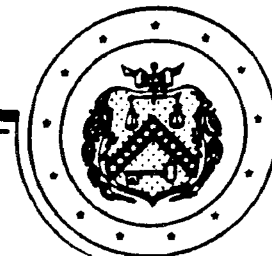
These reductions in the upward pressure on market interest rates will help, by themselves, to cool off some of the heated competition for time deposits and share accounts. But the special legislation you are considering today is also needed to insure the success of the President's program in the interest rate area. It will restrain the unhealthy escalation of interest

rates in the competition for savings that has diverted money away from the mortgage market. And, it will protect the liquidity and general soundness of our financial institutions during a difficult period.

Therefore, I respectfully request favorable committee action on legislation in this important area.

o 0 o

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 13, 1966

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN AUGUST

During August 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 $264,108,000.00.

oOo

F-614

TREASURY DEPARTMENT
Washington

FOR RELEASE AFTERNOON NEWSPAPERS
TUESDAY, SEPTEMBER 13, 1966

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT THE INTERNATIONAL ANNUAL MEETING
OF THE PHARMACEUTICAL MANUFACTURERS ASSOCIATION
AT THE OTSEGO SKI CLUB
GAYLORD, MICHIGAN
ON TUESDAY, SEPTEMBER 13, 1966, AT 1:45 P.M., (CST)

THE PRESIDENT'S PROGRAM FOR NATIONAL ECONOMIC RESPONSIBILITY

I had planned to talk to you today on the subject of the "Great Society," but the release of the President's new economic policy program on September 8, gives me the opportunity instead to talk to you about the kind of economic conduct which must underlie a "Great Society."

Before plunging into this thesis I am going to lay a claim on your courtesy by indulging in a bit of reminiscing and reflecting. The President's message of last Thursday brought to me an intense and very personal degree of satisfaction. For the past five years I have taken an active part in the continuing debate on taxes together with Secretaries Dillon and Fowler and with Assistant Secretary Surrey. This last Presidential message brought the arguments we advanced in the past five years full circle.

I believe that the debate that was generated by the tax proposals of Presidents Kennedy and Johnson has been salutary. The Nation, the Congress, the tax bar, and we in the Treasury have added a bit to our store of knowledge in the process. As an aside I should warn you that the Ways and Means Committee of the House and the Finance Committee of the Senate have been educated to a point where they are formidable indeed. Let factitious pleaders beware! They do not suffer foolishness gladly!

F-615

The economic results are truly impressive -- as even any casual perusal of recent economic statistics will indicate.

But one line of criticism has persisted doggedly through the debates of the past five years. This line of argument went something like this. "Cutting taxes to stimulate an economy, even when the nation's budget is in deficit, is sensible if it relieves the country from an overly restrictive tax system. Agreed that it may well result in <u>more</u>, not <u>fewer</u>, Federal revenues. <u>But</u> will you politicians have the courage and sophistication to take tax action, even if the budget is in balance, when it becomes necessary to restrain an overly exuberant economy?"

The President's message, in a single line, destroyed this concern. I quote: ".... good economic policy works <u>both</u> ways." This simple statement made it clear that the Johnson Administration's policy is a policy of fiscal responsibility.

Let me mention one other line of conjecture that has been prominent in recent months. Those who argue that fiscal policy is fine in theory but dangerous in practice because politicians by inclination will use it only one way -- on the downside -- also argue that the only acceptable alternative is a strong and independent central bank that can and will exercise restraint.

I must confess that a reading of recent history in most of the world tends to support this view. Restraining fiscal action is almost impossible to find -- with the exception of the recent series of heroic proposals advanced in the U.K. Restraint has inevitably come from the Central Banks.

But the extraordinary behavior of interest rates this summer indicates that at least in our country there are limits to the usefulness of a restrictive monetary policy to curb a boom of the current proportions. I believe on balance, and I wish the academics would probe this phenomenon that there are indeed definite and rather narrow limits on our practical ability to use monetary policy as a restraining influence in this nation. I also believe that our central bank concurs in this. So for good or for bad, the politicans must be prepared to "bite the bullet" and to use tax policy as a restraining as well as a stimulating factor.

Now let me return to my thesis -- what sort of economic conduct makes a Great Society possible.

First, let me summarize some of the principal aspects of the "Great Society" as we can see them emerging.

I realize, of course, that some identify the "Great Society" as a trademarked product of President Johnson's Administration.

But the "Great Society" is generic. It is America. It is a striving not for mere luxuries and idle pleasures. It is a restless driving ahead, on the part of a people who live in abundance unmatched anywhere in the world, to improve the quality of their life through improvement of such things as health, service, and education while they act to make sure that the American standard of living is shared by all Americans.

In addition, we know that an America -- mighty, healthy, prosperous and growing -- will not long survive in a hostile and despairing world. America can be neither safe nor free to pursue the goals of the "Great Society" at home if the spirit of man is being ground into the dust in other parts of the world. To liberate the spirit of man, America helped to rebuild Western Europe, came to the aid of Greece and Turkey, defended the freedom of Berlin. We have helped new nations toward independence. And we have carried forward the largest program of economic assistance in the world. We have worked to help build a hemisphere of democracy and social justice. And we have drawn the line against Communist aggression -- in Korea -- in the Formosa straits -- in Cuba -- and again in Vietnam.

The challenges facing the "Great Society" are becoming to a great nation, which has experienced the greatest upsurge of economic well-being in the history of the world over the past five and one-half years. I need cite only a few economic statistics to support this:

-- United States gross national product totaled $503.8 billion in 1960; it is now running at an annual rate of more than $732 billion.

-- Total personal income, in 1960, amounted to $385.2 billion; in mid-1966, it was running at an annual rate of nearly $560 billion.

-- The profits of our corporations, after taxes, today are running at an all-time high of some $48.7 billion annually, compared with $26.7 billion in 1960 -- and business outlays for new plants and equipment, designed to produce newer and better products at a lower unit labor cost, are running this year at more than $60 billion.

-- Average farm income last year rose 23 percent, breaking all records, and has moved to higher ground again in 1966.

President Johnson observed last January that, "We have learned how to achieve prosperity .... now we must sustain it, deal with its problems, and make the most of the opportunities it presents."

These words are almost prophetically apt to the program for dealing with the problems of prosperity that President Johnson laid before the Congress and the American people, and the American business and labor communities, on September 8. This is a program of prudence and responsibility. It is a program to protect and preserve the unexampled well-being of our whole nation and of all of its parts. It is a program calling upon all of those parts to participate in prudent, responsible protection and preservation of the tremendous gains the nation has made in recent years.

What, then, is his program, and what is the role of the various segments of our society in it?

Here are the main points, as outlined in the President's message to the Congress on September 8:

1. Strong measures to reduce lower priority federal expenditures.

Determination of the exact amount of reduction in that limited portion of the fiscal 1967 budget under direct Presidential control must await Congressional action on the remaining appropriation bills. Our best present estimate is that a reduction of 10 percent -- approximately $3 billion -- will be required from that portion of the budget.

Although the costs of the Vietnam conflict are uncertain, if this conflict extends beyond the current fiscal year, we will be forced to order additional material and equipment. To be on the safe side and to support our men in Vietnam, we must act on this contingency.

Federal programs of a lower-priority nature are to be reduced by $1.5 billion in fiscal 1967.

Federal civilian agencies have been directed to defer, stretch out, and otherwise reduce contracts, new orders and commitments. Each major agency has been given a savings target, with orders to meet that target.

The President will defer and reduce Federal expenditures:

-- by requesting appropriations for Federal programs at levels below those now being authorized by the Congress,

-- by withholding appropriations provided in excess of his budget recommendations whenever possible, and

-- by cutting spending in other areas which have significant fiscal impact in 1967.

These savings are not intended to be made at a time when individual incomes and corporate profits are at unparalleled levels, at the expense of programs for alleviating poverty and ill health and poor education. Such a policy would be neither good economics nor social justice.

Postponed investment in buildings and machines can be made at a later date without serious injury to our welfare. But, as the President told Congress, we can never recapture the early years of a child who did not get the head start he needed to be a productive citizen, or the lost opportunities of the teenage dropout who was never given a second chance. And we can never repair the ravages of a disease that could have been prevented, or recall the lives lost by cancer that might have been cured.

The fiscal measures which have given us the unparalleled prosperity of the past five and one-half years were a product of the partnership of the Congress and the Executive. The "Great Society" programs, placed on the statute books of this country by the overwhelming majority of the Congress, also reflect our partnership to promote the welfare of the people of this country. So, now, we must work together to assure that the prosperity and social progress of the past five and a half years continue.

2. The President recommended that the Congress make the 7 percent investment tax credit inoperative, effective September 1, 1966, to become operative again on January 1, 1968.

The President specified:

-- The temporary suspension should apply to all orders for machinery and equipment placed on or after September 1, 1966, and before January 1, 1968, regardless of the date of their delivery.

-- The suspension should be across-the-board, without exception, applying effectively and equitably to all investing industries. No special treatment or special exclusions should be made for this brief period of suspension.

Our machinery and equipment industries cannot digest the demands currently thrust upon them. We see symptoms of strain in growing backlogs, accelerating prices and emerging shortages of skilled workers. There is a ten-month average backlog on machine tool orders alone. On many machine tools, the order backlog exceeds 15 months.

Our capital markets are clogged with excessive demands for funds to finance investment. These demands bid interest rates higher and higher, and draw too large a share of credit from other important uses.

A temporary suspension of the investment credit will relieve excessive pressures on our capital goods producers and on our financial markets. We can then look forward to a smoother flow of investment goods -- at stable costs both for machinery and for money. Our high employment, high profit economy will still provide abundant incentive for growth in our capacity sufficient to produce the goods we need, for modernizing facilities, and hence for maintaining a strong international competitive position.

Our problem is to keep investment within safe speed limits.

3. The President also recommended that the Congress suspend until January 1, 1968, the use of accelerated depreciation on all buildings and structures started or transferred on or after September 1, 1966.

The reasoning here is the same: it is not the time to be pressing on the accelerator; rather, the need is for an economically safer rate of investment.

4. The President asked the Federal Reserve Board, in executing its policy of monetary restraint, and our large commercial banks, to cooperate with the President and the Congress to lower interest rates and to ease the inequitable burden of tight money.

5. The President disclosed that Secretary of the Treasury Fowler has reviewed all potential Federal security sales and is taking action to keep them at the minimum in the months ahead. This should help reduce current pressures on the money market and on interest rates.

This is already a very wide ranging program. But the President called upon the whole of the nation for responsible economic behavior to preserve the prosperity we all share:

-- Banks, he said, should handle money and credit equitably and without extracting excessive profits. They should rely less on high interest rates to price borrowers out of the market and more on the placing of appropriate ceilings on credit.

-- The Federal Reserve Board and our large commercial banks must now recognize that the government is determined to restrain inflationary pressures by fiscal and budgetary measures. Mr. Johnson asked, in turn, that the financial community seize the earliest opportunity to lower interest rates and more fairly allocate the existing supplies of credit.

-- Within this general strategy for a free economy, the President sought the cooperation of employers and unions in maintaining price and wage policies consistent with stability.

He asked American business to:

-- Base demands for credit on genuine needs, not on speculation on future scarcity or higher costs;

-- Maintain an inventory position based on current requirements, not on fears or hopes that prices will be higher later on;

-- Postpone investment projects that are not absolutely necessary at this time;

-- Set prices on the basis of real costs, not imaginary future costs that build in an assumption of inflation;

-- Limit profits to those appropriate for a steadily expanding economy.

He asked American labor to:

-- Avoid wage demands thst would raise the average level of costs and prices in the economy;

-- Adopt work rules and standards for entry into its trades that are appropriate for a continuing full-employment economy;

-- Cooperate with business to raise productivity so that pay increases will be matched by production increases.

Let me conclude on the same two notes the President's message concluded:

We are not entirely free to do as we might prefer -- there are overriding considerations that must not be neglected.

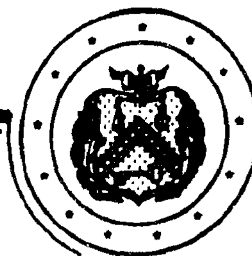
Decisions made elsewhere will influence our defense needs in Vietnam. Because we cannot control or predict these outcomes, we cannot blueprint our fiscal measures in the months ahead. Should additional fiscal measures be required to preserve price stability and maintain sound fiscal policies, they will be requested.

But --

By continuing on a prudent course in our private and public policies and by preserving our capacity for stable economic growth, we can look forward to continuing progress.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 14, 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 September 22, 1966, in the amount of $2,301,149,000, as follows:

91-day bills (to maturity date) to be issued September 22, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated June 23, 1966, and to mature December 22, 1966, originally issued in the amount of $1,000,375,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated September 22, 1966, and to mature March 23, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, September 19, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

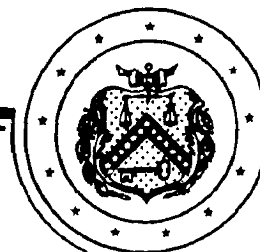
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 22,1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 22,1966. 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 fro any Federal Reserve Bank or Branch.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 14, 1966

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS IN 1966

The Treasury announced today that net sales of monetary gold by the United States to foreign holders during the second quarter of 1966 amounted to approximately $167.3 million.

The major transactions during the quarter, as shown in Table I, were the purchase of $50 million from Canada by the United States and the sale by the United States of $221 million to France. In addition, the table includes gold sales and purchases for Fiscal Year 1966 which show net sales to foreign holders amounting to $378.4 million compared to sales of $1,473 million in Fiscal Year 1965.

Sales of gold to domestic users -- permitted for industrial and artistic purposes -- came to $41.3 million. This brought the total net outflow of gold from the gold stock of the United States in the second quarter of 1966 to $208.6 million. In the Fiscal Year 1966 the net drain on United States monetary gold stocks resulting from domestic gold transactions amounted to $141.3 million as compared to $100.7 million for the Fiscal Year 1965.

Table II, attached, shows sales of gold by the United States during the second quarter of 1966 to other countries to enable them to pay the gold portion of their quota increases in the International Monetary Fund. Deposits of like amounts of gold were made by the IMF with the United States to mitigate the effects upon the United States gold stock of the quota increases. Transactions of this nature amounted to $17.9 million in the second quarter. During Fiscal Year 1966 these transactions amounted to $182.8 million.

Attachments

F-617

Table I

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH

FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

January 1, 1966 - June 30, 1966
(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* 1966	Second Quarter* 1966	Fiscal Year 1966 July 1, 1965 - June 30, 1966*
Afghanistan	- 1.2	- 1.9	- 3.2
Austria	--	--	- 37.5
Belgium	--	--	- 21.0
Brazil	- 1.0	- 0.8	- 3.8
Canada	+100.0	+ 50.0	+150.0
Ceylon	- 0.1	--	- 0.2
Chile	--	- 1.5	- 5.4
Colombia	+ 7.0	--	+ 6.2
Costa Rica	- 0.1	- 0.1	- 0.4
Denmark	- 5.0	--	- 5.0
Dominican Republic	- 0.1	--	- 0.2
Egypt	- 1.1	--	- 3.3
France	-102.8	-220.7	-577.7
Greece	--	+ 9.6	+ 9.6
Iran	--	--	- 7.5
Ireland	- 0.4	- 1.0	- 2.3
Jamaica	- 1.0	--	- 1.0
Jordan	--	--	- 0.6
Lebanon	- 10.8	--	- 10.8
Liberia	- 1.2	- 0.1	- 1.4
Morocco	--	--	+ 4.7
Nicaragua	- 1.0	--	- 1.1
Pakistan	- 0.2	- 0.2	- 0.6
Spain	--	--	- 30.0
Sudan	--	- 0.1	- 0.1
Switzerland	+ 7.0	+ 11.0	+ 18.0
Syria	- 1.5	- 0.2	- 2.0
Tunisia	--	- 1.5	- 1.7
Turkey	- 0.5	- 1.8	- 20.9
United Kingdom	- 19.0	- 7.2	+169.9
Uruguay	- 0.1	--	- 0.3
Vatican	--	--	+ 4.5
Yugoslavia	- 0.9	- 0.6	- 2.6
All Other	- 0.2	- 0.2	- 0.7
Total	- 34.0	-167.3	-378.4
Total U.S. gold outflow	-68.3	-208.6	-519.7
(Including domestic transactions)	(-34.3)	(- 41.3)	(-141.3)

*Figures may not add due to rounding.

Table II

UNITED STATES MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES MITIGATED THROUGH SPECIAL DEPOSITS BY THE IMF
(millions of U.S. $)

	First Quarter 1966	Second Quarter 1966
Jamaica	- 1.5	
Korea	- 1.3	
Dominican Republic	- 0.4	
Sudan	- 3.0	
Japan	- 56.3	
Honduras	- 1.0	
Nicaragua	- 1.0	
Vietnam	- 0.3	
Iraq	- 4.0	
Ivory Coast	- 0.2	
Liberia	- 1.0	
Syria	- 2.0	
Denmark	- 8.3	
Sweden	- 18.7	
Ethiopia	- 1.0	
Haiti	- 0.2	
Ceylon	- 4.0	
Austria	- 25.0	
Congo (Leopoldville)	- 8.6	
Somalia	- 0.9	
Ecuador		- 1.3
Malagasy		- 1.0
Upper Volta		- 0.1
Greece		- 10.0
Rwanda		- 0.2
Morocco		- 0.9
Cameroon		- 0.2
Gabon		- 0.1
Chad		- 0.1
Mauritania		- 0.1
Central African Republic		- 0.1
Republic of Congo (Brazzaville)		- 0.1
Mali		- 1.0
Algeria		- 0.8
Tunisia		- 1.8
Dahomey		- 0.1
TOTAL	-130.7	- 17.9
IMF DEPOSIT	+130.7	+ 17.9

TOTAL FOR FIRST TWO QUARTERS: $148.6

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 14, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON SHOES
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that shoes, leather, men's and boys', welt construction, from Poland are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

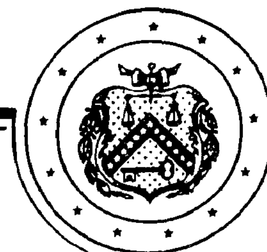
A "Notice of Intent to Discontinue Investigation and to Make Determination That No Sales Exist Below Fair Value," was published in the Federal Register on July 15, 1966, stating that termination of sales with respect to shoes, leather, men's and boys', welt construction, imported from Poland was considered to be evidence that there are not, and are not likely to be, sales below fair value. No persuasive evidence or argument to the contrary was presented within 30 days of the publication of this notice in the Federal Register.

The termination of sales occurred soon after the exporter was advised that price discriminations existed with respect to its sales. The complaint was withdrawn based on the assurances that there would be no resumption of sales at prices which could be likely to be below fair value.

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

Imports of the involved merchandise received during the period May 1, 1964, through May 31, 1965, were valued at approximately $144,000. There were no shipments after May 31, 1965.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE September 14, 1966

ANTIDUMPING PROCEEDING ON
DISC BRAKE PADS

On June 13, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that disc brake pads imported from Canada, manufactured by Certified Automotive Products, Rexdale, Ontario, Canada, are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The information was submitted by Arnley, Inc., Pittsburgh, Pennsylvania.

Having conducted a summary investigation pursuant to section 14.6(d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing, 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 to determine the validity of the information.

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 January 1, 1966, through May 31, 1966, were valued at approximately $50,000.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

FRIDAY, SEPTEMBER 16, 1966 F-618

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 September 3, 1966:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Sept. 3, 1966
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	963,140
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	
Cattle, 700 lbs. or more each (other than dairy cows) ...	July 1, 1966 - Sept. 30, 1966	120,000	Head	22,868
Cattle, less than 200 lbs. each	12 mos. from April 1, 1966	200,000	Head	94,867
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	65,662,200	Pound	38,554,236
White or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1965	114,000,000	Pound	82,034,916
Other		45,000,000	Pound	31,855,519
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	1,305,400 2/
Other brooms	Calendar year	2,460,000	Number	2,428,506 2/

1/ Imports for consumption at the quota rate are limited to 17,693,574 pounds during the first 9 months of the calendar year.

2/ Imports as of September 9, 1966.

Commodity	Period and Quantity		Unit of Quantity	Imports as of Sept. 3, 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, 1966	1,709,000	Pound	182,881 1/

1/ Imports as of September 9, 1966.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
FRIDAY, SEPTEMBER 16, 1966

F-619

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1966, to September 3, 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 Sept. 3, 1966
Buttons	510,000	Gross	305,920
Cigars	120,000,000	Number	7,533,713
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	5,210,306
Tobacco	3,900,000	Pound	2,618,762

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

FRIDAY, SEPTEMBER 16, 1966

F-620

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 - September 12, 1966

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	181,062
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	1,542,372
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, 1966 - September 12, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	18,733,013
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	105,626

COTTON WASTES
(In pounds)

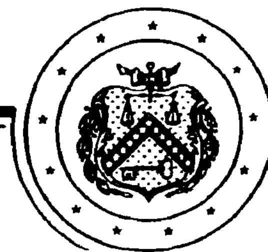
COTTON CARD STRIPS made from cotton having a staple of less than 1-3/16 inches in length, COMBER WASTE, LAP WASTE, SLIVER WASTE, AND ROVING WASTE, WHETHER OR NOT MANUFACTURED OR OTHERWISE ADVANCED IN VALUE: Provided, however, that not more than 33-1/3 percent of the quotas shall be filled by cotton wastes 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 Sept. 12, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965 to Sept. 12, 1966
United Kingdom	4,323,457	78,062	1,441,152	78,062
Canada	239,690	86,824	-	-
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	23,272	25,443	-
Italy	21,263	-	7,088	-
Other, including the U.S.	-	-	-	-
	5,482,509	188,158	1,599,886	78,062

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 16, 1966

FOR RELEASE MORNING NEWSPAPERS
WEDNESDAY, SEPTEMBER 21, 1966

TREASURY PUBLISHES RESULTS OF SURVEY OF EXPORT FINANCING

The Treasury Department today announced the publication of a booklet, "Survey of Export Financing." It contains the results of a questionnaire survey of 2,869 U. S. manufacturing firms with export operations.

Assistant Secretary for International Affairs Winthrop Knowlton said in a foreword to the study:

> "This initial study deals with export credit extension by exporting firms--a field which has never before been surveyed comprehensively.
>
> . . . .
>
> "The study raises more questions than it answers. Hopefully, it will lead to analyses in depth of situations where there is: 1) a possibility that larger amounts of export credit financing might add to total U. S. exports; or 2) conversely, a possibility that export credits already being extended are more than adequate.
>
> "These are questions that have to be determined ultimately by each manufacturing exporter. His good judgment, the willingness of the private banking system and other private lenders to give a high priority to export financing, and the provision of whatever supplementary Government facilities are necessary, will ensure that the use of export credit plays an appropriate role in the expansion of U. S. exports."

The booklet was written by Philip P. Schaffner, Director of the Office of Balance of Payments Programs, Operations and Statistics, under whose direction the survey was conducted.

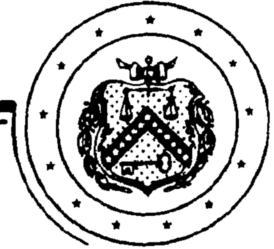
The introductory chapter presents background information on the survey and summarizes the more significant data.

Chapter II presents an assessment of the export financing situation by reporting firms, on the basis of their experience during 1965. The firms commented on the effects of changes in terms or availability of export credit, or in the use of export guarantees and insurance, on their export performance. A number of firms provided additional information on the export financing operations of private lending institutions and on the export guarantee and insurance operations of the Export-Import Bank and the Foreign Credit Insurance Association.

Chapter III analyzes data provided by the survey on the export credit structure of U. S. manufacturing firms. The data are presented by industry categories and by size of firm, as measured by export volume. The relationship between shares in total export credit extended and shares in total exports of different categories of firms receives particular consideration.

Copies of the "Survey of Export Financing" are available upon request, at the Treasury Department.

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 15, 1966

FOR IMMEDIATE RELEASE

FRANCE TO PREPAY $70.8 MILLION ON DEBT
TO THE UNITED STATES

Secretary of the Treasury Fowler announced today that the Government of France has made a further advance payment of $70.8 million on its remaining indebtedness to the United States.

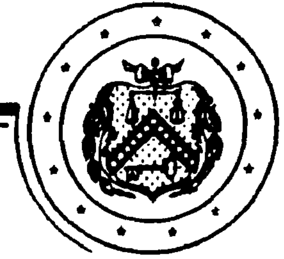
This prepayment will apply to the debt of the Government of France to the United States under the Surplus Property and Lend Lease Agreements of May 28, 1946 and December 6, 1947. It will reduce the amount of outstanding French Government debt to the United States stemming from post World War II loans and financial settlements to about $300 million.

Since 1947 the Government of France has repaid a total of approximately $1,850 million, of which $810 million has been paid in advance of the dates specified in the loan agreements.

oOo

F-622

TREASURY DEPARTMENT



WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
onday, September 19, 1966

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, e series to be an additional issue of the bills dated June 23, 1966, and the other ries to be dated September 22, 1966, which were offered on September 14, 1966, were ened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or ereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. e details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing December 22, 1966		:	182-day Treasury bills maturing March 23, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.609	5.503%	:	96.968 a/	5.997%
Low	98.581	5.614%	:	96.941	6.051%
Average	98.588	5.586% 1/	:	96.947	6.039% 1/

a/ Excepting 4 tenders totaling $1,132,000.
49% of the amount of 91-day bills bid for at the low price was accepted
62% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 16,663,000	$ 16,663,000	:	$ 42,039,000	$ 7,639,000
New York	1,315,998,000	769,368,000	:	1,638,376,000	653,186,000
Philadelphia	30,987,000	18,172,000	:	16,638,000	6,704,000
Cleveland	35,720,000	31,720,000	:	76,211,000	47,041,000
Richmond	14,374,000	14,374,000	:	7,025,000	6,411,000
Atlanta	35,362,000	26,056,000	:	28,308,000	15,589,000
Chicago	336,223,000	165,972,000	:	316,514,000	153,814,000
St. Louis	54,046,000	50,046,000	:	30,396,000	21,541,000
Minneapolis	20,897,000	16,897,000	:	17,387,000	9,631,000
Kansas City	33,707,000	33,707,000	:	23,354,000	19,304,000
Dallas	20,771,000	15,771,000	:	15,542,000	10,442,000
San Francisco	205,304,000	141,264,000	:	243,821,000	49,241,000
TOTALS	$2,120,052,000	$1,300,010,000 b/		$2,456,211,000	$1,000,543,000 c/

Includes $277,074,000 noncompetitive tenders accepted at the average price of 98.588
Includes $178,655,000 noncompetitive tenders accepted at the average price of 96.947
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.74% for the 91-day bills, and 6.32% for the 182-day bills.

623

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE MUNICIPAL TAX COLLECTORS AND TREASURERS
OF THE VIRGINIA MUNICIPAL LEAGUE
61ST ANNUAL CONVENTION
AT THE JOHN MARSHALL HOTEL, RICHMOND, VIRGINIA
ON TUESDAY, SEPTEMBER 20, 1966, AT 1:30 P.M., EDT

It is a pleasure for me to have the opportunity to speak to you today, for several reasons.

For one, it is always good to get away from the office and from Washington to talk with people outside the center of the Federal government and learn what they are thinking.

Second, I welcome the opportunity to discuss the President's economic policy, with which I am intimately involved, and that is what I am going to do today.

I might add a third reason: the municipalities of the great State of Virginia, which you represent, will not be directly affected by the President's proposals to suspend the investment credit and accelerated depreciation. I have spent a great deal of time in the last ten days talking with people who will be directly affected, so the change in point of view today will be refreshing.

And that gets me into my subject, which is one of great interest to everyone in government, in business, in the professions -- everyone, in fact, because every thinking person is concerned with the economy.

There is an old French expression which is usually translated as "the more things change, the more they are the same."

I think I disagree to some extent, at least, with that old French adage. I believe there is evidence that things do change.

Today there is widespread agreement in the nation that Federal tax policy should be used to apply restraint to our ebullient economy in order to avert inflationary dangers.

When the President announced his anti-inflationary program on September 8 and sent to the Congress his proposals to suspend two important tax incentives for business investment, it was the first time tax policy had been used in a period of prosperity and near-balance in the Federal budget to cool off a major sector of the economy that was overheating.

I would not have thought this possible 10 or 15 years ago.

Today tax policy and what we have come to call the "new economics" have been major public issues for six years. We have become something of a nation of sophisticates in fiscal matters.

This is a healthy condition. It is a sign of maturity in our nation. It is proof that, if they are given the facts and exposed to the free interplay of differing viewpoints, the people can make the difficult decisions which democracy requires of them.

The program the President announced and sent to the Congress on September 8 was promised conditionally last January.

In his budget message to the Congress and the American people on January 24, President Johnson said, and I quote:

> "If . . . 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."

The President had just proposed to the Congress a speed-up in the collection of corporate taxes, graduated withholding of individual taxes to make the amounts withheld more nearly equal to individual tax liabilities, and

postponement of two of the excise tax reductions enacted the previous year.

This program did not increase any person's or corporation's total tax liabilities. But by taking additional sums out of the economy in the short term, it did provide additional funds for financing our commitment in Vietnam and exerted an anti-inflationary effect.

With this program and other measures, the Federal government has taken an additional $10 billion in excess purchasing power out of the economy during the current calendar year.

The President -- and, I may add, the Secretary of the Treasury, your fellow Virginian, Secretary Fowler, and I as Under Secretary -- repeatedly expressed the hope that the action taken early this year would be sufficient to keep our economy from overheating as it passed through our sixth year of expansion.

While we were concerned about the possibility of inflation, we were also concerned lest we over-react -- that instead of taking our foot off the gas pedal and slowing down our rate of acceleration we might be stomping on the brakes and sending the economy into a skid.

Over and over again the President reassured the American people that he and his advisers were watching the performance of the economy very closely and that, if developments made it necessary, he would take the action promised in January.

In recent months and weeks the economic picture has come more sharply into focus.

The economy continues to enjoy a vigorous and healthy expansion. But there are some soft spots.

Our economy and the financial system that services it are experiencing at least three clearly discernible pressures:

-- in the money and financial markets, excessive demands for credit, together with monetary restraint, have created severe tightness and a sharp rise in interest rates, with an unfortunate and highly selective impact on several sectors, particularly single-family housing;

-- in the market for capital goods, the ever-mounting flow of new orders by business firms, coming on top of an unprecendented rate of outlay for plant and equipment, is pushing up prices and wages, creating shortages of some skilled labor, and adding sharply to the large demands for capital from banks and the securities market;

-- the rising rate of demand that must be met if we are to carry out our commitment to the defense of freedom in Vietnam.

There is a close relationship among these three sources of pressure:

Faster business spending breeds demand for credit from banks and for financing in the capital market.

Higher defense spending also generates credit demands -- by the government itself and by private firms which receive government orders and work on borrowed funds to fill new contracts.

Tight money itself causes additional government spending, particularly to help finance areas of important economic activity -- such as homebuilding -- from which the supply of private capital has been diverted.

I do not mean to sound like an alarmist. Let me reassure you of the basic strength and health of our economy with just a few statistical observations:

-- the United States gross national product, which totalled just under $504 billion in 1960, is now running at an annual rate of more than $732 billion.

-- total personal income, in 1960, amounted to $385 billion; in mid-1966, it was running at an annual rate of nearly $560 billion.

-- the profits of our corporations, after taxes, today are running at an all-time high of almost $49 billion annually, compared with

$26.7 billion in 1960 -- and business outlays for new plants and equipment, designed to produce newer and better products at lower unit labor costs, are running this year at more than $60 billion.

-- <u>average farm income</u> last year rose 23 percent, breaking all records, and has moved to higher ground again in 1966.

In short, the evidence is clear that we have solved the problems of a sluggish economy which required so much of our time, energy, and attention a few years ago.

As President Johnson observed last January, "We have learned how to achieve prosperity . . . now we must sustain it, deal with its problems, and make the most of the opportunities it presents."

This means, among other things, dealing with the three sources of pressure which I mentioned a moment ago. The President's program is designed to cope with all three.

Here are the main points of the program:

First, the President promised strong measures to reduce lower priority Federal expenditures.

When the needs of defense and other amounts in the fiscal 1967 budget fixed by law or otherwise uncontrollable are taken account of, only about $31 billion is actually subject to direct Presidential control.

Our best present estimate is that a reduction of 10 percent -- about $3 billion -- will be required from that part of the budget.

Determination of the exact amount that can be cut in that limited portion of the budget must await final Congressional action on the remaining appropriation bills.

Although the costs of the Vietnam conflict are uncertain, if this conflict extends beyond the current fiscal year, we will be forced to order additional material and equipment. To be on the safe side and to support our men in Vietnam, we must act on this contingency.

Federal programs of a lower-priority nature are to be reduced by $1.5 billion in fiscal 1967.

Federal civilian agencies have been directed to defer, stretch out, and otherwise reduce contracts, new orders, and commitments. Each major agency has been given a savings target, with orders to meet that target.

The President has proposed to defer and reduce Federal expenditures:

-- by requesting appropriations for Federal programs at levels below those now being authorized by the Congress;

-- by withholding appropriations provided in excess of his budget recommendations whenever possible; and

-- by cutting spending in other areas which have significant fiscal impact in 1967.

But, in a time when individual incomes and corporate profits are at record heights, the President does not intend that these economies be made at the expense of programs for alleviating poverty, ill health, and inadequate education.

We cannot in justice place the pernicious tax of inflation on the elderly and the many others who live on fixed incomes. But neither can we tax the young, the ill, and the unfortunate by denying them their chance for education, health, and opportunity.

Second, the President recommended that the Congress suspend the 7 percent investment tax credit, effective September 1, 1966, to become operative again on January 1, 1968.

The President specified:

-- the temporary suspension should apply to all orders for machinery and equipment placed on or after September 1, 1966, and before January 1, 1968, regardless of the date of their delivery.

-- the suspension should be across-the-board, without exception, applying effectively and equitably to all investing industries. No special treatment or special exclusions should be made for this brief period of suspension.

Our machinery and equipment industries cannot digest the demands currently thrust upon them. There is a ten-month average backlog on machine tool orders alone. On many machine tools, the order backlog exceeds 15 months.

Our capital markets are clogged with excessive demands for funds to finance investment. These demands bid interest rates higher and higher, and draw too large a share of credit from other important uses.

A temporary suspension of the investment credit will relieve excessive pressures on our capital goods producers and on our financial markets. Our high-employment, high-profit economy will still provide abundant incentive for growth in our capacity sufficient to produce the goods we need, for modernizing facilities, and for maintaining a strong international competitive position.

Third, the President also recommended that the Congress suspend until January 1, 1968, the use of accelerated depreciation on all buildings and structures started or transferred on or after September 1, 1966.

The reasoning here is the same: we must not give a reward in the form of a tax advantage to investment which contributes to the pressures on the economy.

Fourth, the President asked the Federal Reserve Board, in executing its policy of monetary restraint, and our large commerical banks to cooperate with him and the Congress to lower interest rates and to ease the inequitable burden of tight money.

I am pleased to be able to add here that the Congress has already responded to the President's message by passing a bill enlarging the powers of our national monetary authorities to deal with interest rate escalation.

Fifth, the President disclosed that Secretary Fowler has reviewed all potential Federal security sales and is taking action to keep them at the minimum in the months ahead. This should help reduce current pressures on the money market and on interest rates.

In those five points the President mobilized the resources of the Federal government to relieve inflationary pressures in the economy.

But President Johnson went further, calling on the entire nation to act responsibly to preserve the prosperity we all share and enjoy.

He called on the banks to allocate credit fairly and without extracting excessive profits. He urged them to rely less on high interest rates to price some borrowers out of the market and more on placing of appropriate ceilings on credit.

He called on the Federal Reserve Board and the entire financial community to take advantage of the earliest opportunity and reduce interest rates while allocating existing supplies of credit more equitably.

He called on business to base their credit demands on genuine needs rather than on speculation on future scarcities or higher costs; to maintain their inventory positions on the basis of current requirements rather than on fears or hopes that prices will go up; and to postpone investments that are not absolutely necessary now.

He also asked business to set prices on the basis of real costs rather than building into them the assumption of future inflation and to limit their profits to a level appropriate for a steadily expanding economy.

He called on labor to avoid wage demands that would raise the average level of costs and prices and to adopt work rules and standards for entry into its trades that are appropriate for a full-employment economy.

He also asked labor to cooperate with business to raise productivity, so that pay increases will be matched by increases in production.

This is the President's anti-inflation program. It is a program that should inspire confidence.

Its diversity should inspire confidence in its effectiveness. And it is not intended to be self-serving when I say it should inspire confidence in our nation's leadership, for I am speaking of the President's leadership.

Not all these proposals will be popular. For example, vigorous dissent has already been voiced from some quarters on the proposals to suspend the two tax incentives for business investment.

The President had a clear idea of what the reaction might be when he made his recommendations. But he made them anyway, because he knew the economy -- and our prosperity -- required them.

Let me quote him briefly just once more:

> "By continuing on a prudent course in our private and public policies and by preserving our capacity for stable economic growth, we can look forward to continuing progress. We can make that progress within the framework of a free economy. We do not want to resort to controls. If we take the necessary actions, next year should bring new heights in consumer living standards, in savings for the future, in our progress toward the Great Society."

What the President is saying is that, in exchange for the right to enjoy prosperity in a free nation, we must all be prepared to put aside or postpone some of our enjoyment and some of our free volition in order to preserve and protect that prosperity when it is threatened.

It is an essential part of our political maturity that we discuss economic policy as a public issue, open to debate by all concerned.

It is also an essential part of that political maturity that we accept the sacrifices which a free society requires of us.

You are in a position to help the President and the Administration to avert the danger of inflation.

As principal financial officers of your municipalities, you are in position to recommend postponing some of your projects and to recommend stretching out some of your programs -- to reduce, or to delay, some of your financing and some of your procurement.

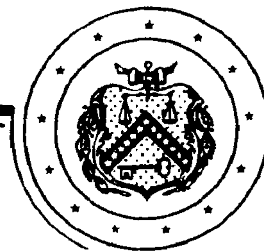
I know that to do so often requires very difficult decisions. You must decide if delaying would do more harm than good. You must gamble that conditions will permit going ahead with a project at a later date if it is postponed now. I recognize the complexity of the factors involved.

But as municipal leaders of the Old Dominion, I know you will make the right decisions -- right not only for your cities but also for the nation.

And you will be strengthened by knowing that the rest of the nation -- business, labor, the financial community, and every other sector, as well as the government -- will be sharing the burden with you.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 20, 1966

FOR IMMEDIATE RELEASE

The Treasury today made public an exchange of correspondence between Secretary of the Treasury Henry H. Fowler and Representative Henry S. Reuss, Chairman of the International Finance Subcommittee of the House Banking and Currency Committee, commending the Subcommittee for urging the Inter-American Development Bank to give further attention to stimulating agricultural development in Latin America.

Secretary Fowler is the U.S. Governor on the Bank's 20-nation Board of Governors.

The Reuss Subcommittee held hearings August 29 at which five private experts gave their views on the need for expanded agricultural development in Latin America in order to meet the goals of the Alliance for Progress.

The Subcommittee adopted a resolution at the conclusion of the private experts' testimony calling on U. S. representatives to the IDB to encourage the Bank:

(a) to initiate work as soon as possible among the institutions and agencies concerned on comprehensive Latin American agricultural planning (comprehending both goals and concrete means of meeting these goals, and drawing on the energies and resources of both Latin America and the rest of the free world), and (b) to give explicit recognition to the urgency of the Latin American agricultural problem and the need for comprehensive planning therefor in the Bank's forthcoming decision regarding its need for additional capital resources.

The Subcommittee held the hearings in anticipation of legislation for an expansion of the resources of the IDB next year. Representative Reuss forwarded a copy of the Subcommittee Resolution to Secretary Fowler by letter on August 30, 1966.

In a letter to Representative Reuss of September 9, 1966, Secretary Fowler reviewed the IDB's substantial financing of agriculture and rural development in Latin America, amounting to over $600 million or roughly 40 percent of the Bank's total financing since its inception in 1960. Secretary Fowler concurred with Representative Reuss' view that action was urgently needed to step up agricultural output and productivity. He proposed that the Bank improve and intensify its agricultural efforts, and in this connection take immediate steps toward better coordination of the activities of the various agencies involved in dealing with the Latin American agricultural problem.

The Secretary characterized the Subcommittee Resolution as "a useful expression of view that rests on concepts with which I agree." He added, "I intend to give the Bank the strongest encouragement to move in just the directions the Resolution outlines."

Representative Reuss, commenting on the Secretary's letter, said, "Hunger, malnutrition and the threat of famine are not remote problems for Latin America... therefore, I appreciate both the broad appraisal Secretary Fowler has made of the Inter-American Bank's present and future role in financing of Latin American agriculture and his ready acceptance of the general views underlying the Subcommittee Resolution."

Copies of the letters exchanged are attached.

HENRY S. REUSS, WIS., CHAIRMAN

ABRAHAM J. MULTER, N.Y.
THOMAS L. ASHLEY, OHIO
WILLIAM S. MOORHEAD, PA.
HENRY B. GONZALEZ, TEX.
RICHARD T. HANNA, CALIF.
COMPTON I. WHITE, JR., IDAHO
RICHARD L. OTTINGER, N.Y.

SEYMOUR HALPERN, N.Y.
WILLIAM B. WIDNALL, N.J.
JAMES HARVEY, MICH.
BURT L. TALCOTT, CALIF.

PAUL NELSON,
CLERK AND STAFF DIRECTOR

HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE
COMMITTEE ON BANKING AND CURRENCY
EIGHTY-NINTH CONGRESS
WASHINGTON, D.C.

August 30, 1966

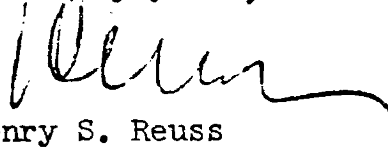
Honorable Henry H. Fowler
Secretary of the Treasury
Washington, D. C.

Dear Mr. Secretary:

In accordance with the unanimous approval of all members of the International Finance Subcommittee, please find attached a resolution adopted by the Subcommittee on Tuesday, August 30, 1966.

The Subcommittee hearing that laid the foundation for the adoption of this resolution concerned the role to be played by the Inter-American Development Bank in stimulating agricultural development in Latin America. As soon as printed copies of the hearing are available, I shall send copies to your office for your information and consideration.

Sincerely yours,



Henry S. Reuss
Chairman

Attachment

HENRY S. REUSS, WIS., CHAIRMAN

ABRAHAM J. MULTER, N.Y.
THOMAS L. ASHLEY, OHIO
WILLIAM S. MOORHEAD, PA.
HENRY B. GONZALEZ, TEX.
RICHARD T. HANNA, CALIF.
COMPTON I. WHITE, JR., IDAHO
RICHARD L. OTTINGER, N.Y.

SEYMOUR HALPERN, N.Y.
WILLIAM B. WIDNALL, N.J.
JAMES HARVEY, MICH.
BURT L. TALCOTT, CALIF.

PAUL NELSON,
CLERK AND STAFF DIRECTOR

HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON INTERNATIONAL FINANCE
OF THE
COMMITTEE ON BANKING AND CURRENCY
EIGHTY-NINTH CONGRESS
WASHINGTON, D.C.

RESOLUTION

WHEREAS, the Banking and Currency Committee of the House of Representatives of the United States has legislative jurisdiction over the United States' participation in the Inter-American Development Bank, and

WHEREAS, the Board of Governors of the Bank at their Seventh Annual meeting in April 1966 have indicated the Bank's need for additional capital resources, and

WHEREAS, the International Finance Subcommittee of the House Banking and Currency Committee has received expert testimony on the urgent need for expanded agricultural development in Latin America if the goals of the Alliance for Progress are to be attained, and

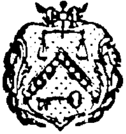
WHEREAS, the Congress will have before it in 1967 a request for increased resources for the Bank, which request will have to be evaluated in the context of the long-term requirements for such expanded agricultural development,

BE IT RESOLVED THAT, the International Finance Subcommittee requests the U. S. representatives to the Inter-American Development Bank to encourage the Bank (a) to initiate work as soon as possible among the institutions

and agencies concerned on comprehensive Latin American agricultural planning (comprehending both goals and concrete means of meeting those goals, and drawing on the energies and resources of both Latin America and the rest of the free world), and (b) to give explicit recognition to the urgency of the Latin American agricultural problem and the need for comprehensive planning therefor in the Bank's forthcoming decision regarding its need for additional capital resources.

# # # #

(Adopted August 30, 1966)



THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 9 1966

Dear Mr. Chairman:

I very much appreciate the opportunity you have offered me to comment upon the question of agriculture in Latin America and the important role the Inter-American Development Bank (IDB) can play in stimulating greater progress in the agricultural section of Latin American economies.

As you will recall from your participation in the U. S. Delegation to the Annual Meeting of the IDB in Mexico City in April of this year, I expressed at that time concern over the present and prospective state of Latin American agriculture and asked that the IDB examine its efforts in this regard to determine if agriculture were being accorded an appropriate priority in its operations. I noted then:

> "I believe we need to give greater attention to the sectoral needs -- in addition to global needs -- for Latin American development. Foremost among these, I would urge special thought to the problems of agriculture and food, and the further intensive promotion of the economic integration movement. The Bank's annual report indicates that in the first five years of its operation the Bank's cumulative lending in the field of agriculture was 21 percent of the total. Does this figure reflect the proper distribution of emphasis which we should place on our operation during the next five years? Are we doing enough, for example, to meet the critical problem of mobilizing and developing human resources to the critical task before us? I can appreciate from my own experience the problems which the Governments of Latin America must face in finding a sufficient number of properly qualified and dedicated public servants in such key fields as taxation and public finance, and I wonder whether the Bank, in cooperation with other international and national lending agencies, could not plan to make a more intensive

contribution toward the solution of this type of problem. Agriculture development and food production are assuming increasingly critical importance in the world today. With Latin America's vast resources of fertile and productive land, could the Bank do more to assist in developing Latin America's food production so that its needs for proper nutrition are more promptly and fully met? In addition to purely national efforts in this area, there are aspects of the food problem which would appear particularly fruitful to approach by means of multi-national efforts -- to open up new areas in the hemisphere, and to develop an industrial base to service agriculture by the production of fertilizer and pesticides, and modern tools and equipment."

The Subcommittee hearings you are now holding to obtain the views of non-governmental authorities on the Latin American agricultural situation are timely, and I look forward to examining the fresh perspectives these experts may offer.

In the comments that follow, I wish to outline briefly the underlying trends that make increased agricultural production, particularly food production, a matter of urgency. I then wish to describe the Bank's contribution to Latin American agricultural development. Finally, I will indicate the directions in which I consider it important for the Bank, for other institutions and entities operating on the Latin American scene and for Latin American Governments to move if satisfactory agricultural growth is to be achieved.

Latin America is not today in the grip of starvation. However, as you point out in your statement of July 18, 1966 the Latin American countries are not immune to the forces that have so drastically affected the rest of the developing world. If unreversed, these forces will bring famine and misery to the population of the Latin American countries. Per capita food production in the region in the mid-sixties is below that of the prewar period. The trend of per capita food production in the postwar period offers no encouragement. Since the late fifties, the FAO estimates that such production increased by no

more than one percent. If nutrition levels were already adequate, stagnation in per capita food production would be of minor consequence. But there are serious qualitative and quantitative deficiencies in Latin American diets, and the bare one percent of progress in food production since the late fifties -- which has still not sufficed to achieve prewar levels -- amounts to roughly an additional 25 calories a day per person, or less than half a slice of bread per day.

I am not suggesting that in absolute terms Latin American agriculture has not expanded. Since the mid-fifties, food production has increased by 30 percent. The effect of the increase has been all but erased, however, by population growth, which has proceeded at rates up to 3.5 percent per year in some countries, among the highest in the world. Although the need to deal effectively with the population problem is crucial, none of the efforts that may now be put in motion will significantly affect the size of populations for many years. Therefore, the prospect is that the rate of population growth will shortly overtake the rate of growth in Latin American food production. Per capita output of food will shrink.

It is against this somber setting that we must consider the Inter-American Development Bank's performance to date and its future role. I believe the Bank, in its five years of financing activity, has made a tangible contribution to rural development in its broadest sense. The financial requirements in this field are extremely large, and the IDB has been the largest single provider of official assistance for agriculture.

Between January 1, 1961 and January 1, 1966, the Bank made commitments to lend $1.53 billion dollars in Latin America for all purposes. An estimated $605 million, or close to 40% of total commitments, was for rural development in its widest sense. Of the $605 million, $348 million was directly for agricultural projects narrowly defined.

This latter amount can be broken down into three major components (see Table I):

(a) $326.6 million in loans that might be described as increasing the capital inflow into agriculture. This category includes all loans clearly identifiable as part of an agricultural project, loans to

improve marketing and loans to improve food processing, and is the basis of the 21% figure I cited in my Mexico City speech as the proportion of total Bank lending to the agricultural sector;

(b) $14.6 million in additional loans to finance technical assistance;

(c) $6.5 million for loans for higher education where an important part of the loan was for financing, teaching and research in the agricultural sciences.

In addition to narrowly defined agricultural financing, the IDB has lent $257 million for social overhead in rural areas not specifically tied to agricultural production, as follows:

(a) $170 million for housing, potable water and sewage in the rural sector;

(b) $87 million for power, highways and roads (in the rural sector) other than access roads linked to specific agricultural projects.

On a basis roughly comparable to the narrow definition of agricultural lending above, the major international and bilateral lending agencies, including the IDB, have committed close to $635 million for investment in agricultural development (excluding technical assistance) in Latin America. As indicated in Table II, the Bank has contributed more than half of this external financing for the period 1961-1965.

During this five year period the Bank had actually disbursed $136.05 million or 41.6% of its loan commitments for agriculture. This compares with a disbursement rate of 38.4% for the Bank's lending at large.

Of the Bank's agricultural project lending, the largest amount loaned - almost 20% of the total - has been for colonization and land settlement. The next largest loans by categories have been: irrigation (19 percent), general agricultural

credit (18 percent), capital for mechanization of agriculture (13 percent) and funds for general agricultural development (10 percent). For the rest, 8 percent of the portfolio is for diversification of production through livestock development and 3% for diversification through introduction of new crops. The categories of "promotion of food processing" and "improved land use" each account for 3% of the portfolio, while strengthening of producer and consumer cooperatives accounts for less than 0.5% of the total amount loaned.

The Bank has thus been heavily committed to expanding acreage under cultivation through colonization, settlement, land improvement and irrigation. To a much lesser extent, the Bank has become involved in the very difficult process of diversification of production. Loans for promotion of technological change have been confined primarily to funds for mechanization of agriculture, and the provision of working capital for farmers to acquire the supplies necessary to undertake technological changes. Thus far, only two loans have been made for improvement of marketing through cooperatives, although there has been considerable investment in access roads and major roads that will facilitate the movement of agricultural output.

Almost all the loans, with the exception of some of those for irrigation, colonization and processing, provide a very large element of rural credit to farmers. Although only 18% of the Bank's portfolio was specifically designated for rural credit on a functional basis, approximately 50% of the amount loaned by the Bank for agricultural development was used to provide rural credit, with the additional amount above the 18% specifically designed to incorporate rural credit into the other categories of projects that I have described. Thus, the Bank's principal instrument for agricultural development has been rural credit. Rural credit has been provided to encourage diversification of production, to help small scale producers, to encourage technological change, to assist producers on land colonization schemes and so forth. With minor exceptions, the Bank has become the major source of financing for agricultural credit institutions in Latin America.

The Bank has also been active in providing funds for member countries to acquire a wide variety of technical assistance. Much of its $14 million in technical assistance lending has been of a preinvestment nature, i.e., to assist in the

implementation of projects and to develop and strengthen institutions that have received loans.

The Bank has also made four educational loans totaling $6.5 million. Three of these loans were to universities to help develop the teaching of agricultural science. The fourth loan was for developing a national center that combines teaching research and agricultural extension services.

I have reviewed the agricultural lending record of the Bank at some length in order to make it clear that the Bank, under President Herrera, is already playing an important part on the Latin American scene. However, my conviction has deepened that the Bank must assume a still more important role in hemispheric agricultural development. There are two aspects of the problem on which I would like to comment.

First, there is the question of overall priorities in the application of the Bank's resources. In my view, it is essential that the Bank devote a substantially greater part of its effort to the development of food and agriculture, which in a few years will become a matter of life or death for large segments of Latin America's population. In its industrial lending, the Bank should emphasize projects related to agricultural inputs -- production of fertilizer and agricultural chemicals, irrigation machinery, farm implements and the like.

As you are aware, the Executive Directors of the Bank are now engaged in an appraisal of its further needs for resources, particularly for the Fund for Special Operations. You may be assured that in the course of the Executive Directors' consideration of this issue U. S. representatives will work for the strongest possible recognition of the priority that food and agricultural development demands. Financing for these purposes involves, of course, a large element of local costs. It will be necessary to ensure, therefore, that the arrangements for tying dollars provided by the U. S. to the Bank are in fact fully effective and that such expenditures will not adversely affect our balance of payments.

In connection with the replenishment of Bank resources, I might observe that in agriculture, as well as other sectors of development, the principal burden and principal effort must come from the assisted countries themselves. Continental self-help for Latin America means not only that domestic budgetary resources must be mobilized to the maximum, but also that development resources from the more advanced Latin American countries must begin to flow either through the Bank's capital structure or borrowings, or through direct bilateral channels, to the less advanced nations.

The second question is that of the Bank's role as leader, stimulator, crystallizer, and coordinator of the activities of the various institutions and entities concerned with Latin American economic development.

The Bank must of necessity play a major role. It is the financial arm of the Alliance for Progress and possesses both technical and financial resources. The over-all guidance for the Alliance for Progress is provided through CIAP, the Inter-American Committee on the Alliance for Progress which serves as the Executive arm of the Inter-American Economic and Social Council. World-wide financial agencies, such as the World Bank and its affiliates, and world-wide technical assistance agencies such as the UN Development Program and the Food and Agricultural Organization, contribute importantly to the Latin American scene. Bilateral programs provide agricultural development resources and technical assistance. National agricultural institutes and research programs, and such regional bodies as the Inter-American Institute of Agricultural Sciences, are additional parts of the institutional structure of Latin American agricultural development.

I strongly favor efforts to achieve a better coordinated approach in Latin America that would integrate the diverse elements now involved. Clearly, CIAP is the desirable mechanism for encouraging commitments on the part of governments to attack their own agricultural problems vigorously. The Bank has established a desirable relationship with FAO similar to that between the World Bank and FAO for the identification and evaluation of agricultural projects.

Plans have already been made for the Bank's round table discussion at the April 1967 Annual Meeting to concentrate on the Latin American agricultural problem. I see no reason why this discussion forum could not be the beginning of an important mechanism of cooperation among all those concerned with this problem. Meeting annually under the Bank's sponsorship to review and appraise the progress on and outlook for the agricultural scene, this forum could be transformed into what would be, in effect, a functional "consultative group" of the relevant financial and technical institutions and entities, with the full participation of CIAP. I intend to explore this possibility further within the Government and with the President of the Bank.

I am less concerned with the problem of where the exact locus of overall coordinating responsibility lies than with the far more important problem of infusing all the operating agencies with the knowledge of and the necessary sense of urgency about Latin America's food and agricultural outlook.

At every opportunity I shall be turning my own efforts toward developing this sense of urgency in those active on the Latin American scene. I again express my appreciation for the chance to put my views before the members of your Subcommittee. Your hearings will, I am sure, focus attention on the scope of the task ahead. The Resolution just adopted by the Subcommittee is a useful expression of view that rests on concepts with which I agree. I intend to give the Bank the strongest encouragement to move in just the directions the Resolution outlines.

Sincerely yours,

Henry H. Fowler

Henry H. Fowler

The Honorable
Henry S. Reuss, Chairman
Subcommittee on International Finance
Committee on Banking and Currency
House of Representatives
Washington, D. C. 20515

Enclosure

TABLE I

IDB Loans for Agricultural Development 1961-1965

($ millions)

Capital for development	326.6 million
Funds for technical assistance	14.6
Loans for agricultural education	6.50
	347.7

TABLE II

Loans and grants, by agency, for agricultural development 1961-1965

($ millions)

Inter-American Development Bank	326.62
AID	153.8
IBRD/IFC/IDA	121.4
International Development Agency	3.6
U. N. Special Fund	21.3
Export-Import Bank	7.4
	634.12

TREASURY DEPARTMENT
Washington

FOR USE UPON DELIVERY

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT A MEETING WITH
THE NATIONAL INDUSTRIAL CONFERENCE BOARD
AT THE WALDORF-ASTORIA HOTEL IN NEW YORK CITY
WEDNESDAY, SEPTEMBER 21, 1966, 3:15 P.M., EDT

I am very pleased indeed to be with you upon so auspicious an occasion as the 50th anniversary of this distinguished organization for economic research.

In my position as Secretary of the Treasury, I am often reminded of the many and profound contributions the National Industrial Conference Board has made to our understanding of how a free economy works -- and how it should work. Much that is embodied in public policy today is the result of your 50 years of patient research and illuminating reports.

If I were asked to summarize your work in a line, I would say, and I think that you would not disagree with me, that you have been engaged in exploring the potentials of a partnership for economic well being between the government and the business community of a free nation that wants to remain free.

I believe the idea that a free people can collaborate with their government to get the most out of their economy is one of the most important -- and, nowadays, one of the fastest spreading -- political-economic concepts in the world.

Our public-private partnership has been of unparalleled benefit to this country, and its people, as demonstrated by your chart study made for this occasion.

I hope that before this 50th anniversary meeting closes, you will resolve to carry your work forward at least another full 50 years, for I can see no time in the future when the contributions to knowledge such as you make will not be needed at least as greatly as they have been in the past.

I am glad to note, in this respect, that you have dedicated this meeting to the future. I hope that my remarks, which deal with President Johnson's anti-inflation program, will throw a sidelight of some value upon your theme, "The Future of Capitalism."

It is my view -- and your work indicates that it is also your view -- that the future of capitalism is a future of responsible economic behavior, by government, by the public, by labor, by farmers, and, as the very existence of NICB suggests, by the business community, great and small.

The President's anti-inflation program is nothing more -- and nothing less -- than a call to a new level of responsible economic behavior by all segments of the American economy.

It is a program for maintaining, and continuing the unprecedented economic gains we have made during the long climb over the past six years out of economic stagnation.

It is a program for maintaining and extending those gains by preserving the balance between our various demands for goods and services, and our capacity to satisfy rising demand that has been the unique, and the uniquely beneficial, aspect of our economic growth over the past six years.

The economy has now come under special strains that threaten that balance. These strains arise largely, although not exclusively, from two sources: exuberant capital expansion by business, and demands arising from our defense of freedom in Vietnam. I do not think that any of you here today, faced with this problem would choose to curtail the defense of freedom in order to let business plant and equipment expansion go unchecked. Nor did President Johnson. He asked the Congress to suspend temporarily special tax incentives to business investment during the next sixteen months.

Nor did the President stop there. He committed himself to a strong program to reduce lower priority federal expenditures, including an estimated cut of 10 percent -- or approximately $3 billion, depending upon Congressional action on remaining appropriation bills -- in that limited portion of the Budget under direct Presidential control.

The President's program also pointed the way toward balance in another important aspect of economic policy -- the application of fiscal and monetary measures in balance, whether in seeking stimulus or restraint. In this connection, he called upon the Federal Reserve Board, in executing its policy of monetary restraint, and our large commercial banks, to cooperate with the President and the Congress to lower interest rates and to ease the inequitable burden of tight money.

He called upon the whole economy, and all those responsible for it, for restraint.

The President's program is designed to:

(1) Contribute to a restraint of inflationary developments that are proving disruptive of the financial markets and placing excessive strain on the capital goods industries.

(2) Promote a more sustainable rate of balanced economic growth in the next sixteen months and thereafter.

(3) Suspend special fiscal stimulants to investment, and thereby support a policy of monetary restraint without incurring the burdens and without running the risks of excessively tight money and high interest rates.

(4) Complement other measures enacted by the Congress or pending before it and being undertaken through administrative action to reduce upward pressures on interest rates and minimize the discriminatory impact of tight money and high interest rates on the housing sector of the economy.

The strains on the economy at present show up in three clearly discernable ways:

-- in the money and financial markets, excessive demands for credit and monetary restraint together have created severe tightness and a sharp rise in interest rates, with highly selective impact on several sectors, particularly single family housing;

-- in the market for capital goods, the ever mounting flow of new orders by business firms coming on top of an unprecedented rate of outlays for plant and equipment is generating rising prices, rising wage rates and shortages of some skilled labor, and is augmenting the large demands for capital from banks and the securities market;

-- the rising rate of government expenditures, Federal, State and local, highlighted by steadily expanding defense and public works outlays is adding steadily to aggregate demand at a high rate.

These three sources of pressure are interrelated and reinforcing. Accelerating business spending breeds demands for credit from banks and for financing in the capital market. Higher Government spending also generates credit demands -- by the Government itself, and by private firms which receive Government orders and work on borrowed funds to fill new contracts. And tight money itself causes additional Government spending, particularly to help finance areas of important economic activity such as homebuilding from which the supply of private capital has been diverted.

The program contained in the President's Message is designed to deal with all three pressure points.

This program is primarily economic and financial in its objective and thrust. It represents, I believe, the most carefully chosen and prudent means, consistent with preserving stable economic growth within the framework of a free economy, to ease the strain of the pressures described.

Let me emphasize that the President's proposal to suspend the investment tax credit and accelerated depreciation for the next 16 months is not a tax reform proposal -- it is temporary in design and purpose.

Let me emphasize also that it is not a revenue-raising proposal in purpose or objective; any revenue aspects are only incidental.

This proposal, and the entire program announced September 8, is basically an anti-inflationary action designed to relieve the pressures, clearly observable in the money markets and capital goods sector, which have produced the highest interest rates in forty years, and a

perceptible trend toward a general condition of economic instability.

Let me relate the tax aspects to the balance of the President's anti-inflation program:

The proposed suspension of special incentives to undertake major programs of business investment should relieve the credit market by moderating business needs for funds.

The President directed me to review all Federal security sales and present them to the President for approval with the objective of lessening the burden of Federal finance on the markets. The President's memorandum to Federal Departments and agencies of September 9, calling for careful and thorough pruning of Federal lending and borrowing activities, should reduce aggregate Federal credit demands on the private market.

It has already been decided to cancel the sale of FNMA participation certificates tentatively scheduled for September, and to have no FNMA participation sale in the market for the rest of 1966 unless market conditions improve. Nor will there by any Export-Import Bank sale of participation certificates in the market in the rest of this calendar year. Market sales of Federal agency securities, meanwhile, will be limited in the aggregate to an amount required to replace maturing issues, while new money, to the extent genuinely needed, will be raised through sales of agency securities to Government investment accounts.

Another important ingredient of the President's program is the legislation passed last week to give the bank regulatory agencies and Federal Home Loan Bank flexible authority to halt and hopefully reverse the harmful process of excessive interest rate escalation in the field of consumer savings.

The announced program for reducing Federal expenditures for fiscal 1967 is yet another related measure to minimize the drain of Federal financing on the credit market in addition to reducing aggregate demand. The President has made clear his firm determination to hold down all lower priority expenditures by means of deferrals, stretching out the pace of spending and otherwise reducing contracts, new orders and commitments -- a policy and program with which I have been actively and affirmatively concerned from the initial preparation of the January Budget.

Of course, any precise description of the amount and nature of the spending cuts must await action by the Congress on the eight major appropriation bills still pending before it. When Congress gives us the bills, we will do the job of expenditure control.

Let me stress that we have been exercising a vigorous control of Federal expenditures all along.

In the fiscal years, 1965, 1966, and as proposed by the President in 1967, Federal budget expenditures -- <u>including in the latter years large amounts for Vietnam</u> -- were respectively, 14.8, 15.0, and 14.7 percent of our gross national product. With the exception of 1958 and 1951, these are the lowest percentages since 1942 -- a period spaning 25 years, five Presidents, and a large growth in the responsibilities of the Federal Government.

When President Johnson took office, the budget under which he was operating, that for fiscal 1964, called for $98.8 billion of expenditures. Three years later, exclusive of the costs of Vietnam, his budget called for expenditures of $102.3 billion -- an average increase of slightly over $1 billion per year. And this increase in the total of Federal outlays is much smaller than the added costs over this period of Federal pay raises and increases in the public debt alone.

In <u>each</u> of the fiscal years 1965 and 1966, the Federal deficit was lower than the prior year. The deficit in the administrative budget in fiscal 1965 was $4.8 billion lower than the year before, and $8.5 billion below the 1964 estimate prevailing when President Johnson took office. In 1966, despite the added expenses of Vietnam, amounting to $5.8 billion, the deficit was cut another $1.1 billion below that of 1965, to $2.3 billion. In fact, on a national income and product account budget basis, favored by many economists as the true measure of the stimulus or restraint of Federal activities, the 1966 Budget was in surplus $1 billion.

The President announced on September 8 that he had directed Federal agencies to defer, stretch out, and otherwise reduce contracts, new orders, and commitments by $1.5 billion in fiscal 1967. The total amount of the reductions which will ultimately be required must await Congressional action on the remaining authorization and appropriation bills. But, as I indicated earlier, given our best estimates of likely

possibilities, we believe a total of at least $3 billion below the final appropriations figures will be called for. And we are prepared to make such reductions.

Since his anti-inflation program was announced the President has begun implementation of his promise to seek further economies in government by issuing to the various departments and agencies a new six-point economy program. For example, he has ordered a 25 percent cut in Federal overtime pay.

Now I will turn to the part of the President's anti-inflation program that calls for temporary suspension of the 7 percent investment tax credit for machinery and equipment and of the option to elect accelerated depreciation on buildings, for the period September 1, 1966, through December 31, 1967.

As everyone here is probably well aware, I have been a strong exponent of the investment credit, having worked strenuously to secure its original enactment in the Revenue Act of 1962, along with the administrative liberalization of depreciation.

Our experience to date has justified the faith I had in 1961-2 in the efficacy of the investment credit, and my belief that it should become a permanent part of our tax structure. Since then industrial production has increased three times as fast as in the previous decade, real business fixed investment has increased nearly four times as fast, and our economic growth generally has far surpassed its previous rate. This remarkable achievement is not due solely to the investment credit, but I firmly believe the investment credit has contributed substantially to it. Moreover, looking to the long-term future I am convinced that the encouragement provided to business by the credit to modernize and expand its use of capital equipment is essential to maintaining full employment with stable prices, and to keep our industry competitive with foreign goods. The President and his Administration fully share these views.

It is therefore, as I am sure you understand, only with considerable reluctance and after very careful study that we reached the conclusion that suspension of the investment credit is an appropriate measure at this time. I stress suspension -- and not repeal -- since the credit should be

regarded, as President Johnson's Message indicated, as an essential and enduring part of our tax structure.

Not only do I regard the investment credit as a permanent structural component of our tax system but also one that should be suspended only in times of active hostilities at least on a scale such as characterizes the present situation. Even under such circumstances I would, as I have in the past made clear, be chary of suspending the investment credit unless the combination of a rapidly expanding civilian economy and increasing and special defense needs made this course compelling. I am opposed to treating the investment credit as a counter-cyclical device, to be suspended and restored with the normal ups and downs in our economy.

The present situation is unique and was quite unforeseeable when the credit was adopted and stress was put -- and properly so -- on its permanent character. We then contemplated a peacetime economy and thoughts of a country engaged in hostilities on the present scale were far from our minds. But hostilities can cut ruthlessly across many plans and procedures designed to meet problems of a country at peace. We are deeply committed to an extensive military operation in Southeast Asia which shows no signs of early termination. Its effects on our economy are clearly evident. We are also confronted with a monetary situation of almost unparalleled tightness, which is producing distortions in our economy and the highest levels of interest rates in more than 40 years.

Early in the year when the question of suspending the credit was raised in the Senate, we hoped that this change in the law could be avoided. In March the President invited to the White House more than 100 chief executives of companies which, together, are responsible for making a large portion of business plant and equipment outlays. At that dinner the President made a strong personal appeal to those present to carefully review their investment plans with the objective of screening out and setting aside for deferral whatever projects and expenditures they possibly could. Many of the executives did just that and wrote letters to the President confirming their plans to moderate their investment outlays.

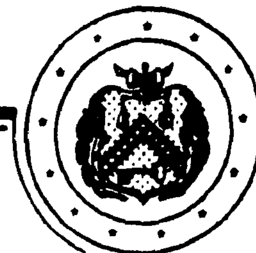
Nevertheless, the level of investment in both plant and equipment has remained too high under present circumstances and it is taking place despite sharp increases in interest rates paid by corporate borrowers which some thought would restrict capital expenditures. Undoubtedly the increase would have been larger without the influence of the President's appeal for restraint. This made clear the need for temporary suspension of special investment incentives, accelerated depreciation as well as the investment tax credit.

It would be dangerous to let the economy proceed on its present course without a release from these pressures that suspension of the investment credit and the companion measure, accelerated depreciation on buildings, will help accomplish along with the remainder of the program set forth in the President's Message.

The unforeseeable escalation of Vietnam in mid-1965 gave a strong upward thrust to the demand on our resources. In response, the policy of the Administration has been to take fiscal steps designed to meet conditions as they unfolded. This was exemplified in the Tax Adjustment Act of 1966 which applied the degree of restraint that conditions and prospects at that time required. Similarly, we are now proposing another appropriate step again responsive to prevailing conditions. In view of the uncertainties with which we still are confronted, we cannot offer blueprints for future programs. The only prudent course is to maintain a flexible, step-by-step approach which will maintain the stable growth and prosperity of the last 5½ years, and in the President's words, "pay for current expenditures out of current revenues, as we are now doing."

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 21, 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 September 29, 1966, in the amount of $2,300,097,000, as follows:

91-day bills (to maturity date) to be issued September 29, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated June 30, 1966, and to mature December 29, 1966, originally issued in the amount of $999,904,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated September 29, 1966, and to mature March 30, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, September 26, 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-627

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 September 29, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 29,1966. 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 fro any Federal Reserve Bank or Branch.

oOo

TREASURY DEPARTMENT

WASHINGTON, D.C.
September 21, 1966

FOR IMMEDIATE RELEASE

TREASURY'S MONTHLY OFFERING OF 9-MONTH
AND ONE-YEAR BILLS

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing September 30, 1966, in the amount of $1,000,499,000, as follows:

273-day bills (to maturity date) to be issued September 30, 1966, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated June 30, 1966, and to mature June 30, 1967, originally issued in the amount of $1,001,443,000, the additional and original bills to be freely interchangeable.

365-day bills, for $900,000,000, or thereabouts, to be dated September 30, 1966, and to mature September 30, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, September 27, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000,and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.(Notwithstanding the act that the one-year bills will run for 365-days, the discount rate ill be computed on a bank discount basis of 360 days, as is currently he practice on all issues of Treasury bills.) It is urged that tenders e made on the printed forms and forwarded in the special envelopes hich will be supplied by Federal Reserve Banks or Branches on pplication therefor.

Banking institutions generally may submit tenders for account of ustomers provided the names of the customers are set forth in such enders. Others than banking institutions will not be permitted to ubmit tenders except for their own account. Tenders will be received ithout deposit from incorporated banks and trust companies and from esponsible and recognized dealers in investment securities. Tenders rom others must be accompanied by payment of 2 percent of the face

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

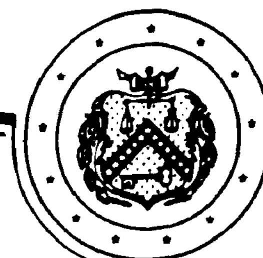
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 30, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 30, 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE September 21, 1966

SALE OF 9-MONTH AND 12-MONTH TREASURY BILLS

The Treasury Department announced today that $1.4 billion of Treasury bills will be sold through competitive bidding on September 27 for payment September 30. The proceeds of the sale will be used to redeem the $1.0 billion of 12-month bills maturing September 30 and raise $400 million of additional cash.

The sale of $1.4 billion of bills will include $900 million of new 12-month bills and $500 million additional bills maturing June 30, 1967. This reopening, as 9-month bills, of the 12-month bills sold in June 1966, marks the start of a program to auction both 9-month and 12-month bills each month.

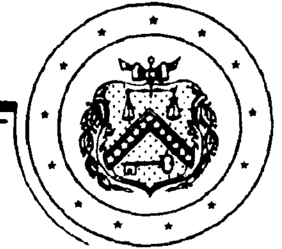
By reopening the 12-month bills for additional sales, the plan is expected to increase the marketability of the 12-month bill issues. The initiation of the program at this time will help to raise additional funds in the months ahead, when Treasury borrowing needs in the market will be enlarged because of Government investment account purchases of Federal agency securities, and because of the cancellation of the sale of participation certificates at this time, as announced by the Treasury on September 10.

The Treasury also noted that its next major cash borrowing, probably in the form of tax anticipation bills, is expected to be announced in early October for payment after mid-October. Further borrowing intentions, which may involve bills or coupon-bearing issues, will be indicated as plans become firm.

oOo

F-629

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE September 22, 1966

ANTIDUMPING PROCEEDING ON
TETRAMETHYLTHIURAM DISULFIDE
AND ZINC DIETHYLDITHIOCARBAMATE

On June 20, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that Tetramethylthiuram Disulfide (TMTD) and Zinc Diethyldithiocarbamate (ZDC) imported from the Netherlands are being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The information was submitted by Vanderbilt Export Corporation, New York, New York.

TMTD is used as an ultra-accelerator for curing rubber manufactured goods. ZDC is used as an ultra-accelerator for curing rubber and latex manufactured goods.

Having conducted a summary investigation pursuant to section 14.6 (d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing, 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 to determine the validity of the information.

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 January 1, 1966, through July 31, 1966, were valued at approximately $71,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

September 23, 1966

FOR IMMEDIATE RELEASE

TREASURY ASSISTANT SECRETARY TRUE DAVIS NAMED U.S. EXECUTIVE DIRECTOR OF THE INTER-AMERICAN DEVELOPMENT BANK

Secretary of the Treasury, Henry H. Fowler, today announced the appointment of Assistant Secretary of the Treasury, True Davis, as United States Executive Director of the Inter-American Development Bank.

Mr. Davis, who will continue to serve as Assistant Secretary of the Treasury, succeeds Tom Killefer who has rejoined private industry in Detroit, Michigan.

"I am confident he will make a memorable contribution to this young and vital institution for Inter-American development and cooperation", Mr. Fowler said.

The Inter-American Development Bank was established in 1959 to contribute to the acceleration of economic development of Latin American countries. It has 20 members, including: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, United States, Uruguay and Venezuela.

Mr. Davis is one of seven Executive Directors of the Inter-American Development Bank. The Executive Directors serve three-year terms and are responsible for the conduct of the operations of the Bank under the Board of Governors.

The Secretary of the Treasury is the United States member of the Board of Governors.

Mr. Davis was born in St. Joseph, Missouri, December 23, 1919. Before starting his business career, he attended Cornell University. He entered the Navy in 1942, and attained the rank of Lieutenant, Senior Grade, before being discharged in 1945.

F-630

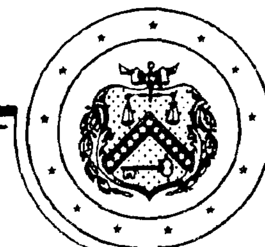
After a career as an executive in the Anchor Serum Company of St. Joseph, Missouri, and a member of other companies, Mr. Davis was appointed Ambassador to Switzerland in October, 1963. He served there until his appointment as Assistant Secretary of the Treasury in September, 1965.

He is a member of the American Legion and the Veterans of Foreign Wars, a former chairman of the VFW's Americanism Committee, and publisher of VFW's booklet Americanism vs. Communism. Before entering the diplomatic service, Mr. Davis was chairman of the Department of Commerce Export Expansion Council for the Kansas City region and a member of the nuclear energy committee of the National Association of Manufacturers. He was also a director of the Missouri State Chamber of Commerce.

He is married to the former Virginia Bruce Motter of St. Joseph, Missouri. They live (at 2860 Woodland Drive,N.W.) in Washington, D. C. They have three sons.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.
September 23, 1966

FOR IMMEDIATE RELEASE

SECRETARY FOWLER ANNOUNCES APPOINTMENT OF
JOHN R. PETTY AS DEPUTY ASSISTANT SECRETARY

Secretary of the Treasury Henry H. Fowler today announced the appointment of John R. Petty, 36, as Deputy Assistant Secretary of the Treasury for International Affairs.

Until his appointment, Mr. Petty was a Vice President of Chase Manhattan Bank in New York, and head of Chase Manhattan's Worldwide Projects Management Division. He will be principal assistant to Winthrop Knowlton, Assistant Secretary of the Treasury for International Affairs. He will assume his new duties immediately.

Mr. Petty has been with the Chase Manhattan Bank since 1953. He has worked in the international banking field since 1955. From 1958 to 1960 he was an Assistant Treasurer of Chase Manhattan for Western Europe and Africa. Since then he has served in the bank's Western European division, in its Paris branch, and in New York.

Mr. Petty served in the U. S. Navy Pacific Fleet during the Korean War, leaving service in 1953 as a Lieutenant, Junior Grade.

Mr. Petty was graduated from Brown University in 1951. He majored in international relations.

Mr. Petty worked on international studies from 1953 to 1961 in association with the Council on Foreign Relations. He was a member of the National Export Expansion Council's Action Committee on Export Financing and the Defense Industry Advisory Council's Subcommittee on Military Exports.

He is married to the former H. Lee Mills. They have three sons.

oOo

F-631

TREASURY DEPARTMENT

WASHINGTON, D.C.
September 23, 1966

FOR IMMEDIATE RELEASE

Secretary of the Treasury Henry H. Fowler today announced that the Treasury Department's Cost Reduction-Management Improvement Program saved almost $45 million during fiscal 1966, ended June 30.

Savings and avoided costs for the fiscal year adding up to $44,567,000 were described in a report from the Secretary to President Johnson on Treasury actions under the program to hold down the costs of government.

During the 20-year history of the program, savings of approximately $270 million have been reported, of which nearly $118 million, or 43 percent, have been in the past three years.

The Treasury's 1966 savings totalled $5.5 million more than the previous record of $39 million, achieved in fiscal 1965, and over $10 million more than the $34 million goal established early last year.

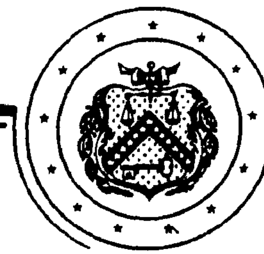
Treasury actions also resulted in savings to other Government agencies during fiscal 1966 totalling $650,000. These are not included in the above figures. Projected savings of approximately $1 million will accrue to other agencies during fiscal 1967 as a result of these activities.

The Treasury savings and cost-avoidance figures result primarily from actions taken to reduce operating costs. They do not include savings resulting from use of the new clad metal alloys in the coinage.

oOo

F-632

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE P.M. NEWSPAPERS
MONDAY, OCTOBER 3, 1966

SECRET SERVICE REPORTS NEW HIGH IN COUNTERFEITING

Counterfeiting of U.S. currency reached a new high this past year -- as did recoveries of counterfeits and arrests -- Secret Service Director James J. Rowley said today. This was disclosed in a report to David C. Acheson, Special Assistant to the Secretary of the Treasury (for Enforcement) on the activities of the Secret Service for the past fiscal year, July 1, 1965 through June 30, 1966.

In recovering an all-time high of $9 million in counterfeit currency the Secret Service seized 90 percent of this amount before it could reach the public. In addition, Mr. Rowley noted that arrests for counterfeiting crimes also reached a record high of 866.

"There is no indication that this criminal activity will lessen in the coming year," said Director Rowley. "The ease with which large amounts of counterfeit currency can be produced by technicians with limited capability is largely responsible for the unprecedented amount of counterfeit currency.

The Report also showed that forgeries of Government checks and bonds continues to be a major enforcement responsibility for the Secret Service. During the past fiscal year the Service investigated nearly 50,000 of these forgery cases, involving more than $5 million and 2,691 persons were arrested for these crimes.

The Report to Mr. Acheson said that "The protection of the First Family, Vice President, former Presidents, their Wives, and the Widow and Minor Children of the late President Kennedy continued to be the primary responsibility of the Service. Investigations in the interest of our protective responsibilities continued to receive priority attention."

The Report illustrated Secret Service activities with highlights of a few counterfeiting and forgery cases. It credited local, state and other law enforcement agencies and citizens for their part in aiding the Secret Service in its responsibilities.

The Secret Service yearly Report is attached.

F-633

oOo

SECRET SERVICE ANNUAL REPORT

Fiscal Year Ended June 30, 1966

During FY1966 the Secret Service recovered an all-time high of $9 million in counterfeit currency. Ninety percent of this amount was seized before it could be passed on to the public. Arrests for counterfeiting violations also reached a new high of 866. Thirty-six plants for the manufacture of counterfeit money were seized.

There is no indication that this criminal activity will lessen in the coming year. The ease with which large amounts of counterfeit currency can be produced by technicians with limited capability is largely responsible for the unprecedented amount of counterfeit currency.

Further, the rise in counterfeiting activity generally follows the rise in the affluence of the country and with the increase in the amount of currency in circulation.

Though the quality of the counterfeit has not improved, its sheer volume and wide distribution will require additional coverage in some areas of the country not heretofore seriously affected by counterfeiting operations.

The following are summaries which illustrate the type and scope of counterfeiting activities during FY1966.

In July 1964 a known Boston criminal and his associates became acquainted with a notorious morals offender who owned a small printing shop in an isolated area in central New Jersey. This printer had previously been a co-defendant in a well-publicized obscenity case in the District of Columbia and had since retreated to this remote New Jersey home.

Using printing supplies purchased in the New York City-Newark area by the Boston group, the printer manufactured nearly a quarter of a million dollars in counterfeit $5, $10 and $20 Federal Reserve Notes which were returned to Boston for distribution. Approximately $40,000 in these notes were passed in the Massachusetts area during the following months.

By July 1965 the Secret Service had arrested 46 persons for handling these notes, including the printer. The plant was seized, together with $150,000 in the counterfeit notes.

Subsequently, on February 11, 1966, four new issues of counterfeit $10 and $20 Federal Reserve Notes appeared in the New York City-Newark area. Several passers were arrested and it soon became apparent that the counterfeiting plant was operated by the same New Jersey morals offender who was then free on bond awaiting trial on the previous counterfeiting arrest.

Agents located the plant in a residence in Camden, New Jersey, during the early morning hours on February 17. They captured one-half million dollars in uncut sheets of the notes which one of the counterfeiters was trying to destroy.

The defendants in the second arrest, involving the printer, an associate and several passers, were brought to trial in New York City and all were convicted. The printer is now serving a five-year sentence for producing the second group of notes while still awaiting disposition of the first case in New Jersey.

******

A new counterfeit $20 Federal Reserve Note appeared March 27, 1962, in the bank deposit of a Bismarck, North Dakota, auto parts distributor. The businessman could not recall who had passed the note in his store. Several others of this type counterfeit were also passed in the area by an unknown passer. The Secret Service had no leads to the source of these notes. Further, the counterfeits stopped appearing.

After almost four years, the man who made these counterfeits decided to try his luck once more at passing the notes. He went to a social affair in Bismarck and passed two of the counterfeits, bearing identical serial numbers, in the purchase of tickets to be used at the beer counter. Since these were the only two $20 notes accepted by the ticket seller during the entire evening, the counterfeiter was identified and quickly arrested.

He was cooperative following his arrest and told Agents he had made the counterfeits during the latter part of 1961 at a local printing shop in which he was employed. He took Agents to his home where the plates, negatives and over $10,000 in the counterfeits were recovered. He had been successful in passing only five notes during the four-year period.

******

Florida produced a counterfeiting plant which specialized in an extremely high volume but a "minus" net profit.

In November 1965, nine new issue counterfeit $20 Federal Reserve Notes were passed in Dublin, Georgia. Although we could not identify the passer, we did develop information tracing the counterfeits to the owner of a correspondence school in Lakeland, Florida, and we concentrated our investigation on this individual.

Agents arrested the school owner and his accomplice at Lakeland, Florida. They found $750,000 in counterfeit notes, the press and other paraphernalia used to manufacture the notes at their residence. A search of their garage disclosed an additional one million dollars in the counterfeits.

Although the counterfeiter told Agents he had been unable to transfer any of the notes to underworld contacts, we later arrested two ex-convicts in Georgia for passing the notes. They admitted receiving about $25,000 in the counterfeits from the Florida man through a mutual acquaintance, and the counterfeiter had never received any payment for the notes and had operated entirely without a profit during this venture.

He is now serving a five-year sentence.

******

On a balmy day in February, roofing contractors installing a new roof on a dwelling in North Miami, Florida, noticed certain pieces of paper coming from a chimney of a nearby residence. Upon closer inspection they found the papers to be portions of what appeared to be currency. The roofers took the currency to a local banker who called our Agents to examine the notes. The notes were counterfeit and of an issue not previously known to the Service.

Agents obtained a search warrant and proceeded to the suspect's house where they found a Cuban National and his family with a complete currency counterfeiting plant. He had attempted to manufacture counterfeit $1, $5 and $10 notes to supplement his earnings at a local photo-finishing firm. However, before passing any of the notes, he decided to destroy them by burning them in his fireplace. He is presently awaiting trial.

****

On July 28, 1965, a British attorney residing in Lausanne, Switzerland, passed fifty-eight new counterfeit $100 Federal Reserve Notes at four different banks in Geneva. He was arrested that date and Swiss authorities seized $380,000 in these counterfeits which he had hidden in his car and office.

The subsequent investigation was conducted by our Paris, New York and Los Angeles Offices in cooperation with Swiss authorities. The investigation disclosed that the attorney had been involved with another British subject on various financial enterprises. In July 1965 the attorney was in serious financial difficulty. He requested assistance from his British business acquaintance who was then temporarily residing in the United States. He assisted him by sending one-half million dollars in counterfeit United States currency on July 27, 1965, through a courier.

Following the attorney's arrest, the investigation led to the courier, then to the attorney's British acquaintance and to several other United States citizens.

The Englishman and two of his American associates were convicted in Federal Court in Los Angeles. The prosecution of the attorney is being handled by Swiss authorities.

****

The table on the next page summarizes receipts of counterfeit money during Fiscal Years 1965-1966.

COUNTERFEIT MONEY RECEIVED -- FISCAL YEARS 1965 AND 1966

Receipts of Counterfeit Notes and Coins	1965	1966
Counterfeit Money Received in the United States		
Loss to the Public	$ 846,213.30	$ 962,060.99
Seized before Circulation	2,517,596.27	8,098,417.35
Total	$3,363,809.57	$9,060,478.34

Forged Government check cases investigated during the past fiscal year numbered 42,545, involving an amount of almost $4.5 million. A total of 2,618 persons were arrested for Government check violations.

The Secret Service also investigated 7,361 cases involving the forgery and fraudulent negotiation of United States Savings Bonds having a maturity value of nearly $750,000 and arrested 73 persons for this crime.

The following brief summaries are representative of the cases involving criminals engaged in the forgery of checks and bonds.

From March 1965 to November 1965, two men stole, forged and cashed U. S. Treasurers checks from Virginia to Southern Florida. They were arrested for these offenses on November 9, 1965, at Daytona Beach, Florida.

During the period of their operations, these two men stole over 200 U. S. Treasurers checks amounting to approximately $20,000. One hundred and seventy-four of these checks were forged and cashed. Thirty-one of the stolen checks were recovered from an automobile belonging to one of the forgers.

Almost without exception these men obtained the checks involved by burglarizing many different Post Offices.

The principal forger and negotiator of the checks was sentenced at Jacksonville, Florida, to serve thirteen years. The other is serving a sentence of seven years.

******

A woman forger was arrested July 16, 1965, in Dallas, Texas, for the forgery and negotiation of U. S. Treasurers checks. At the time of her arrest she surrendered over $9,500 in cash and 61 U. S. Treasurers checks she had stolen involving an amount of over $3,500.

For several months prior to her arrest, she had traveled extensively and had forged and cashed about 100 stolen U. S. Treasurers checks in San Francisco, Los Angeles, Sacramento, Reno, Kansas City, St. Louis, Detroit, Chicago, Houston, El Paso, Fort Worth and Dallas.

During the period of these violations she was on bond in connection with two previous arrests for similar offenses involving approximately 90 checks in the New York City area. During one of these two previous arrests, she violently resisted being taken into custody and in the ensuing scuffle both she and a Special Agent went through a large plate glass window before she was subdued.

She was prosecuted in Federal Court in Dallas, Texas, on October 7, 1965, and was sentenced to serve fifteen years.

Almost without exception this forger victimized banks in her forgery violations.

******

A woman was arrested January 28, 1966, in a bank in Buffalo, New York, while in the act of forging 20 Savings Bonds totaling $1,775. Her supplier of the bonds, a man, was arrested outside the bank while waiting her return to the car.

Their forgery activities began in May of 1965 when she forged and cashed 48 bonds totaling $1,200. They resumed their activities in August of 1965. During the following six months, they cashed at numerous banks in Michigan and New York, 307 bonds stolen from Nebraska, Ohio, Indiana and New York, totaling nearly $60,000.

The man entered a plea of guilty and was sentenced to four years. After he entered his plea he surrendered through his attorney 659 stolen bonds totaling $54,400. The woman also entered a plea of guilty and was sentenced to four years, suspended, and placed on probation for four years.

****

Offenses investigated by the Secret Service resulted in the conviction of 3,502 persons -- 97.7 percent of the cases brought to trial during the fiscal year.

The incidence of crime over which the Secret Service has investigative jurisdiction remains generally consistent with the nationwide crime trend.

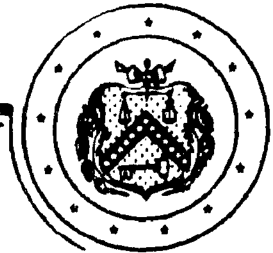
The protection of the First Family, Vice President, former Presidents, their wives, and the widow and minor children of the late President Kennedy continued to be the primary responsibility of the Service.

The protective responsibilities of the Secret Service were extended by law September 15, 1965, as follows: "Protect the person of a former President and his wife during his lifetime and the person of a widow and minor children of a former President for a period of four years after he leaves or dies in office, unless such protection is declined."

Investigation in the interest of our protective responsibilities continued to receive priority attention.

We have continued to receive excellent assistance from local, state and other federal law enforcement agencies in our protective and investigative responsibilities. Interested citizens have also aided greatly by furnishing us with information important to our effective operation.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, September 26, 1966

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ls, one series to be an additional issue of the bills dated June 30, 1966, and other series to be dated September 29, 1966, which were offered on September 21, 5, were opened at the Federal Reserve Banks today. Tenders were invited for 300,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabts, of 182-day bills.

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing December 29, 1966		:	182-day Treasury bills maturing March 30, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.615	5.479%	:	97.078	5.780%
Low	98.605	5.519%	:	97.057	5.821%
Average	98.609	5.503% 1/	:	97.066	5.804% 1/

21% of the amount of 91-day bills bid for at the low price was accepted
63% of the amount of 182-day bills bid for at the low price was accepted

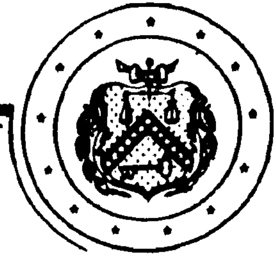
L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	:	Applied For	Accepted
oston	$ 37,965,000	$ 9,226,000	:	$ 25,263,000	$ 7,487,000
ew York	2,037,717,000	930,868,000	:	1,514,034,000	668,284,000
iladelphia	31,679,000	13,601,000	:	17,820,000	7,438,000
leveland	36,638,000	24,286,000	:	40,542,000	26,580,000
ichmond	13,764,000	12,974,000	:	16,154,000	8,344,000
lanta	38,898,000	18,110,000	:	35,653,000	13,008,000
icago	357,565,000	66,227,000	:	345,820,000	163,194,000
. Louis	66,316,000	53,908,000	:	57,866,000	39,266,000
nneapolis	18,377,000	8,877,000	:	16,563,000	7,613,000
nsas City	29,150,000	22,917,000	:	21,372,000	18,815,000
llas	27,179,000	11,329,000	:	14,477,000	9,127,000
n Francisco	293,943,000	130,195,000	:	245,011,000	30,965,000
TOTALS	$2,989,496,000	$1,302,540,000 a/		$2,350,575,000	$1,000,121,000 b/

cludes $258,184,000 noncompetitive tenders accepted at the average price of 98.609
cludes $206,110,000 noncompetitive tenders accepted at the average price of 97.066
ese rates are on a bank discount basis. The equivalent coupon issue yields are 56% for the 91-day bills, and 6.06% for the 182-day bills.

F-634

TREASURY DEPARTMENT



WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
esday, September 27, 1966.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
lls, one series to be an additional issue of the bills dated June 30, 1966, and
e other series to be dated September 30, 1966, which were offered on September 21,
966, were opened at the Federal Reserve Banks today. Tenders were invited for
00,000,000, or thereabouts, of 273-day bills and for $900,000,000, or thereabouts,
365-day bills. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	273-day Treasury bills maturing June 30, 1966		365-day Treasury bills maturing September 30, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	95.629 a/	5.764%	94.156 b/	5.764%
Low	95.564	5.850%	94.074	5.845%
Average	95.596	5.807% 1/	94.113	5.806% 1/

a/ Excepting 3 tenders totaling $3,405,000; b/ Excepting 1 tender of $5,300,000
67% of the amount of 273-day bills bid for at the low price was accepted
13% of the amount of 365-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 4,871,000	$ 4,871,000	$ 16,638,000	$ 6,638,000
New York	785,109,000	368,509,000	1,081,899,000	649,459,000
Philadelphia	4,720,000	720,000	11,071,000	3,071,000
Cleveland	8,786,000	7,136,000	20,063,000	15,033,000
Richmond	1,902,000	1,902,000	6,826,000	6,826,000
Atlanta	10,351,000	2,821,000	18,559,000	11,559,000
Chicago	74,320,000	34,120,000	149,135,000	89,135,000
St. Louis	18,201,000	18,201,000	18,888,000	15,888,000
Minneapolis	3,475,000	3,475,000	9,547,000	9,547,000
Kansas City	2,177,000	2,177,000	5,389,000	5,389,000
Dallas	6,890,000	6,890,000	7,637,000	7,637,000
San Francisco	63,836,000	49,186,000	127,073,000	79,823,000
TOTALS	$ 984,638,000	$ 500,008,000 c/	$1,472,725,000	$ 900,005,000 d/

Includes $28,206,000 noncompetitive tenders accepted at the average price of 95.596
Includes $66,166,000 noncompetitive tenders accepted at the average price of 94.113
These rates are on a bank discount basis. The equivalent coupon issue yields are
6.10% for the 273-day bills, and 6.16% for the 365-day bills.

F-635

TREASURY DEPARTMENT
Washington

FOR USE UPON DELIVERY

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY OF THE UNITED STATES
AND
UNITED STATES GOVERNOR OF THE INTERNATIONAL MONETARY FUND
BEFORE THE
ANNUAL MEETING OF THE INTERNATIONAL MONETARY FUND,
SHERATON PARK HOTEL, WASHINGTON, D.C.
WEDNESDAY, SEPTEMBER 28, 1966, AT 11:00 A.M., EDT

STEPS TOWARD A MORE RATIONAL WORLD ECONOMIC ORDER

Introduction

I give you my country's heartiest welcome as we meet together again to consider the vital work of the International Monetary Fund. We are honored by your presence.

In their 1966 Annual Report, the Executive Directors report on the strengthening of the Fund in the past year. The Fund's resources have now been raised to over $20 billion as the result of global and selective increases in quotas. During the past year, a decision was made to renew the General Arrangements to Borrow. These Arrangements have again been utilized for the special purposes for which they were designed and have helped the Fund meet record drawing requirements by its members.

The United States fully supports the recent decision of the Executive Directors to improve the Fund's special Compensatory Financing facility, under which drawings may be made to meet shortfalls in export earnings.

But our focus at these Annual Meetings must be on meeting future challenges rather than past accomplishments.

When I spoke to you upon this same occasion last year, I closed with a plea that we lift our eyes from our daily tasks long enough to catch sight of the broad outlines of what we who are associated in the International Monetary Fund are seeking to create: a world monetary structure strong enough,

flexible enough, and with growth potentials adequate to be building of a Greater Society of Nations.

This vision of a Greater Society of Nations places three principal requirements upon us in the year ahead:

First, it calls for acceptance of a wider, deeper, more generally shared effort in the field of international economic development -- to fill the crucial finance gap -- the difference between the capital available to all of us and the capacity of the developing countries to use increasing amounts of capital effectively and productively -- so eloquently expressed by President Woods in his notable address earlier in this Meeting.

In his February 1 Message to Congress on Foreign Aid, President Johnson, anticipating this call, clearly stated the position of the United States saying:

> "I propose that the United States -- in ways consistent with its balance of payments policy -- increase its contributions to multi-lateral lending institutions, particularly the International Development Association. These increases will be conditional upon appropriate rises in contributions from other members. We are prepared immediately to support negotiations leading to agreements of this nature for submission to the Congress. We urge other advanced nations to join us in supporting this work."

I have already made proposals to this end in a speech at Granada, Spain earlier this year and my colleague, Secretary George Ball, will develop this topic in his address.

Second, the vision of a Greater Society of Nations calls for the successful negotiation in the year ahead of a specific contingency plan for improved and expanded international monetary arrangements -- arrangements with more depth, more span, and more flexibility, arrangements that would build into our international monetary system a means to provide world liquidity consonant with the world's ability to use reserves constructively. I shall expand on this point later.

Third, the vision of a Greater Society of Nations summons us to tasks of national and international cooperation and development so far-reaching that they require the full and efficient use of our human talent and our material resources. We are facing a period in the world's history when the numerous and pressing demands for both national effort and international economic cooperation will reach new heights.

The United States regards the year ahead as a hinge for opening the door to a better future, as the strong nations, the old and the emerging, seize their joint opportunities to deal constructively with their joint problems, without being haunted by the past or confounded by the present. I commend for your consideration the sense of urgency and analysis so well expressed in a Report issued within the month by the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the Congress of the United States. This Report is entitled "Twenty Years After: An Appeal for the Renewal of International Economic Cooperation on a Grand Scale."

Without passing upon the particular procedures proposed in that Report, there can be no question concerning the rightness of the emphasis and urgency expressed in the following words:

> "The world is in trouble -- deep trouble -- in at least five different areas of economic negotiation and policy: trade; aid to less developed countries; maintaining a balance in international payments; international monetary reform; and maintenance of stable price levels in economies marked by full employment and rapid economic growth."

We in the United States are proud of our initiatives and national contribution in the last twenty years in these areas. We believe their spirit, their motivation and their scale serve to give a measure of what must exemplify the role, not just of the United States, but of other nations individually as they regain and achieve strength and stature, and of our family of free nations all together, if international economic and financial cooperation is to assume ever greater dimensions that are required for the last half of this century.

We call upon nations -- those that are now strong and those that are rapidly emerging -- to join us in a renewed effort that will make the year ahead a notable beginning.

Let us consider some of the specific ways in which we may move toward a better world economy.

Strengthening the Adjustment Process

I call your attention to the Report of Working Party Three of the Organization for Economic Cooperation and Development, and to the discussion in the Report of the Deputies of the Group of Ten countries of the need for improvement in our adjustment process, and the concern of the International Monetary Fund with the effective operation of the adjustment mechanism.

Each of these reports recognizes that the adjustment process needs to be improved and that the responsibility for adjustment should fall upon both deficit and surplus countries.

Deficit countries must make full efforts to balance their payments positions through appropriate policy mixes -- depending primarily upon fiscal and monetary policy to achieve sustainable equilibrium. Surplus countries must employ their surpluses or hold them in forms that are consonant with the international interest, taking measures which will permit the adjustment policies adopted by deficit countries to work.

It is neither the course of national economic wisdom nor of international cooperation for surplus countries to use their capital markets as instruments for the accumulation of gold and other reserves beyond their needs. Rather they should liberalize them -- to facilitate capital export and for the finance of increased development assistance through the international institutions such as the World Bank and its sister banks.

Should this not be done by the surplus countries and should they not also liberalize trade restrictions, the deficit countries after making appropriate use of policies to achieve equilibrium -- may be forced, in the event such policies are not fully effective,

to adopt either overly severe domestic measures or to apply unduly restrictive trade, capital and assistance policies. These are not only difficult choices -- they hurt the world economy.

Let us apply these principles of adjustment to the problem of development finance. However excellent our development assistance intentions, our ability to realize them will be lessened if due attention is not paid to the need to finance assistance in ways that are consistent with balance of payments positions.

In considering the extension of resources by the industrialized countries to the developing countries, there is a tendency to think of the donors as surplus countries and the recipients as deficit countries. This is not always the case. Among the capital exporting countries there are countries with balance of payments deficits and countries with balance of payments surpluses. Further, these positions change from time to time.

It should remain clear that the amount of assistance extended by donor countries should be determined by their capacities to give assistance. However, in seeking to increase these amounts to meet the growing needs of the developing countries, the balance of payments positions of particular donor countries must be taken into account.

The most desirable way to reconcile these objectives would be for donor countries with balance of payments surpluses to reduce or eliminate any requirements that the financing which they provide be linked to procurement in their markets. In extreme cases, surplus countries might even require that their financing be used for procurement in other countries. Surplus countries might also take steps to enlarge greatly the access of international lending institutions to their domestic capital markets.

Deficit donor countries have to safeguard their balance of payments positions while continuing to extend amounts of assistance commensurate with the broad criteria of aid-giving. It should be possible for us to devise imaginative methods to achieve this dual objective of increased aid and protection of balance of payments, and to this end we would welcome discussion among donor countries and with the international financial institutions.

Rationalizing Capital Outflows

The Recommendations of a Task Force of the U.S. Government that I was privileged to head in 1963 included the following:

> "The (United States) should, through appropriate international bodies, particularly the OECD, advocate the step-by-step relaxation of monetary, legal, institutional, and administrative restrictions on capital movements, together with other actions designed to increase the breadth and efficiency of Free World capital markets."

Unfortunately, so little progress has thus far been made in this area that the United States is forced to ask American banks and corporations to restrict their foreign investment.

We still find among the most highly developed countries of the world a wide-spread desire to run current account surpluses although these same countries are not prepared to supply capital net to the world on the scale that is required to finance these export surpluses. Many of the problems we face arise from this simple fact.

We expect that the OECD will issue shortly a blueprint for progress in improving capital markets abroad. We are also confident that, once the way is pointed, the OECD will establish procedures to assist in the translation of plans into action. We can look forward to a meaningful improvement in foreign capital markets that in turn will reduce the need for restraining measures on our part to guard against over-dependence upon U. S. capital.

Coordinating National with International Policy

It is the responsibility of every nation so to conduct its internal affairs as to avoid weakening the international economic fabric upon which, in the end, we depend for our maximum individual and collective growth. The United States is keenly aware that it is particularly incumbent upon a reserve currency country to keep its economy in good balance so that its currency should be a dependable store of value in the reserves of other nations.

As you know, a year ago I was able to report a very satisfying trend of improvement in the balance of payments accounts of the United States. But this year we have not been able to make a further improvement. To a very large extent the cause of our continued deficit is extraordinary and temporary: our heavy involvement in the defense of freedom in Vietnam has directly increased our foreign exchange costs for military expenditures in the Far East by nearly $1 billion. This does not take account of the indirect consequences reflected in the rapid rate of increase in imports which has diminished the trade surplus.

In the past year sharp increases in demand, to a considerable extent also attributable to our involvement in Vietnam, have brought under attack the fine degree of balance among various elements of our economy that was maintained in the United States through most of the nearly six years of rapid economic growth we have enjoyed.

Consequently, earlier this month President Johnson announced a program intended to contribute to restoring that balance in the United States economy.

With this program the United States Government took a further step in a step-by-step use of fiscal and monetary weapons during the past year to deal with inflationary excesses in our economy, as and where they have appeared.

Working Party Three cited the need for the more active use of fiscal policy as a counter-cyclical weapon. In his Message to the Congress of September 8, President Johnson pointed out that when caution signs became visible early in 1966, the United States Administration and the Congress acted promptly through a series of five fiscal measures taking $10 billion of excess purchasing power out of the economy during this calendar year.

The President also pointed out that responsible fiscal policy demanded tight control of Federal expenditures, and that this has been exercised, through a Budget policy that, on a national income basis -- the best measure of economic impact -- was designed to show an overall surplus of about $1 billion, and that in the first half of 1966 actually ran at an annual rate of $3 billion surplus. Speaking on September 8, the President could say that since January 1, the Government has taken in more than it spent.

The President has placed before the Congress further fiscal recommendations: suspension for 16 months of special tax incentives to business plant and equipment investment. And he has undertaken a further wide range of actions to reduce Federal outlays, including a promise to cut actual spending far below what has been authorized by the Congress where authorizations exceed the Fiscal 1967 Budget.

The Working Party Three recommendations called also for further improvement in the implementation of general monetary policy. In the United States, monetary policy has been used actively during the past year to dampen excess spending by restricting the availability of credit in the face of a strong surge in demands for credit. In the process, interest rates have risen to heights unprecedented for 40 years. All the instruments of general monetary policy -- open market operations, reserve requirement changes and discount policy -- have been used during the past year and, most recently there have been innovations in their use.

We have also been making selective use of both fiscal and monetary weapons as the Adjustment Process Report likewise recommended. When the danger of excess demand first appeared early this year, we took both monetary and fiscal actions designed to restrain general demand. Now that excess activity has become centered in the area of business investment, the President has asked the Congress to enact selective restraints in that area, by suspending special tax incentives to investment. Meanwhile, the Federal Reserve has adapted its discount administration so as to intensify the pressure on banks to dampen loans to finance business investment spending. And because excessive competition for savings among financial institutions was having disproportionate effects on some sectors of the economy, we developed and won Congressional approval for additional authority by the regulatory agencies over interest rates permissible for different types of deposits.

We expect this wide ranging, varied and flexible mix of measures to exert effective control upon demand in the United States such as the Fund Report for this year suggests would be desirable. We also expect it to succeed, because of the careful selection and the variety of instruments used, without bringing about a harmful deflation.

At the same time, President Johnson recently declared to the Congress:

> "Decisions made elsewhere will influence our defense needs in Vietnam. Because we cannot control or predict these outcomes, we cannot blueprint our fiscal measures in the months ahead. But should additional fiscal measures be required to preserve price stability and maintain sound fiscal policies, I will recommend them."

Improving the World System of Financial and Economic Cooperation

One of the critically important areas in which we can and should be moving currently toward a more rational world economy lies in improvements that can be made in the world system of financial cooperation.

At the center of this system lies the International Monetary Fund and the truly remarkable network of institutions and arrangements that has been developed to work with or alongside the Fund in the task of international economic problem solving.

One of these is the "General Arrangements to Borrow." Another is the cooperative network of reciprocal swap facilities developed by the United States and a number of other countries that has recently been enlarged to a total of $4.5 billion.

There is less certainty that we have made progress in the field of the composition of reserves. Rising gold ratios, at a time when supplies of new monetary gold are limited, weaken rather than reinforce the system.

The improvements to date in the international monetary system that serves the nations gathered here have been on the whole defensive.

What is needed now is a positive advance: a widening of the financial channels running between our nations, deepening of them so that they can carry greater loads, and extension of them so that they reach more directly into all our lands.

For several years and in several international forums we have been intensely occupied with world trading arrangements in recognition of the necessity of expanding the volume and improving the flow of world commerce and, particularly, of increasing the participation of the developing countries in this commerce. In the Kennedy Round of the GATT trade negotiations, we have now entered the crucial phase of activity.

Another aspect of the future will be a different payments situation from the one that has prevailed in the past two decades, when the world's reserves have grown chiefly due to United States payments deficits.

It is these deficits, chiefly, that have provided successively to a number of countries the reserves which have given them the courage to liberalize their trade restrictions and have thus in a sense floated the great increase in world trade that has taken place in recent years. There is a realization that the world cannot look to continued U. S. payments deficits to supply reserves in the future on the scale that they have in the past, without unacceptable risks to the stability of the international monetary system. So we are moving towards equilibrium in our payments as fast as the unusual and temporary foreign exchange costs of the war in Vietnam will permit.

Such large reductions in reserves as have occurred have affected the reserve currency countries and those countries that had unusually high reserves at the end of World War II. That is, where reserves were too concentrated at that time, they have been redistributed. But, that process -- having taken place -- cannot be expected to continue under normal conditions -- and further dispersion at the expense of the reserve currencies does not strengthen the monetary system as a whole.

We must also keep in mind the fact that changes are taking place that are greatly increasing demand for goods and services. For example, the world population is expanding at a startling rate. The world's ability to produce and transport is rising exponentially, due to leaping growth in our technological and scientific capabilities.

Many more people, wanting many more goods and services, and increasingly able to earn them will require a very substantial rise in the world's needs for reserves. While we must not make the mistake of confusing money, the lubricant, with incomes which provide the fuel for the whole economic machine, it is equally unwise not to give proper care to an adequate supply and use of lubricant.

We must not let it be said that we were the generation of finance ministers who insisted that new mountains of the world's products could be carried to untold new millions of the world's people waiting and eager for them, on an economic machine which we refused to lubricate adequately.

On July 10, 1965, I announced that the United States stood ready to attend and participate in an international monetary conference that would consider what steps we might jointly take to secure substantial improvements in international monetary arrangements.

Progress in the direction of better monetary arrangements, including assurance of adequate reserves in the future, is our decided purpose. With each passing month our determination to move in that direction has increased. The Report of the Deputies of the Group of Ten submitted this summer, the action of the Ministers and Governors at The Hague on July 28, the address of Managing Director Schweitzer of the Fund, and the expressions of Governors at this meeting confirm our conviction that the time for decisive action is here.

We stand now at the threshold of the second stage of our negotiations aimed at improving international monetary arrangements. This stage follows upon agreement on basic points of contingency planning for reserve creation by the Ministers and Governors of the Group of Ten.

A fundamental basis of the discussions among the Group of Ten countries was that all countries have a legitimate interest in the adequacy of international reserves. As a consequence, it was agreed that second stage discussions should include joint meetings with the Executive Directors of the Fund. It was also agreed that deliberately created reserve assets, as and when needed, should be distributed to all members of the Fund on the basis of IMF quotas or of similar objective criteria. Reserves distributed in this manner would be created on the basis of a collective judgment of the reserve needs of the world as a whole and would not be either geared or directed to the financing of balance of payments deficits of individual countries.

I believe these are sound recommendations. I hope and trust that a specific plan for deliberate reserve creation will emerge from this second stage to become the subject of action by the Fund Governors no later than the next annual meeting.

The Burdens of Supporting Freedom

The United States has raised a shield against aggression in Southeast Asia -- as earlier in Europe and the Middle East. We fight there together with our Vietnamese friends whose homes, and lives and country are threatened, and with the help of our allies from Australia, South Korea and the Philippines.

The homes, the lives and the national integrity of every free man -- of every free nation -- in the entire world lies in the shelter of that shield.

In closing, I want to refer back to the U. S. balance of payments position and, in this way, pull together the threads of my speech.

Last year, our payments deficit was $1.3 billion on a liquidity basis. This year so far, it is running at about that same rate -- despite a rapid step-up of activity in Southeast Asia. We have done well -- in the face of very adverse circumstances.

If we have not made further progress in our balance of payments position this year, the chief reason is the foreign exchange costs of the shield of freedom that I have just been discussing.

The U. S. has, at present, a net international payments deficit on military account of $2.6 billion -- this is not the budgetary cost but the foreign exchange drain.

We have a net deficit on foreign aid account -- after tying -- of about three-quarters of a billion dollars.

The total of these two items taken together is about two and a half times our overall deficit.

As I have already said, we have used fiscal and monetary policy to keep our domestic economy in an attitude of sustainable growth. We are prepared to do more -- as and when needed. The President has made this very clear. We already have adopted some restraints on capital and tightened our assistance policies to minimize the balance of payments cost of this assistance.

My point is a simple one.

We want and intend, to attain balance -- we do not intend in the future to meet the world reserve needs by an American deficit. The costs of Vietnam have made the task more difficult, to be sure.

The question is, therefore, not "whether" but "how", to attain both our interim and longer term objectives.

Under present circumstances, there are three broad possibilities. We can apply general and selective measures that shrink the net flow of dollars to the rest of the world without any conscious geographical selection -- that is, wherever these measures happen to impinge. This course, we suspect, is likely to mean that, in the first instance, a number of developing countries and deficit countries would feel the first impact in a shrinkage of their dollar receipts, or their ability to command real resources, or both. Only at a later stage would the needed adjustment of the persistent surplus countries take place, as a result of the effect of this shrinkage in the purchasing power of the intermediate countries on the hard core of the world's imbalances in these surplus countries.

The second course would be to tailor our measures to the maximum extent possible to concentrate the adjustment on surplus countries. Measures that affect capital outflow could in large degree be so directed. Indeed, our voluntary restraints on capital represented a first, albeit cautious, step in this direction, as did the Interest Equalization Tax. But as economic as this course would seem to be, it is not without problems, as you well know.

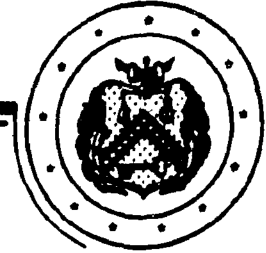
Finally, there is the possibility that the burden of adjustment might be shared in a more positive way with the surplus countries. By this, I mean that the surplus countries would follow more active, instead of passive, policies in their pursuit of equilibrium. I say this although quite aware that such a course is not without difficulty for the major surplus countries. But I say this nevertheless because it is clear to me that this course is the most efficient, if not the only means of taking into full account all aspects of the relationship of the pursuit of equilibrium to the total objectives of a rational world economic order.

The answer to this question as to how the objectives are to be attained is not one for the United States alone to answer. How it will be answered depends on the composite result of our own efforts and the policies of other countries, particularly the countries in persistent surplus. Measures taken by the deficit countries might have to be quite drastic if surplus countries follow, whether by design or otherwise, policies that tend to preserve these surpluses.

Here, as elsewhere, it is our hope that we can continue to seek solutions through close and rational cooperation, both in the interim period and in the longer run. We seek a world in which nations work and consult together, understand each other's capacities for action, and allow their policies to fit together. A combined forward thrust is the desideratum -- indeed it is necessary -- if our combined resources and efforts are to meet the impressive demands of the years and decade ahead.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 28, 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 October 6,1966, in the amount of $2,304,083,000, as follows:

91-day bills (to maturity date) to be issued October 6, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated July 7, 1966, and to mature January 5, 1967, originally issued in the amount of $ 1,001,231,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated October 6, 1966, and to mature April 6, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, October 3, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the 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-637

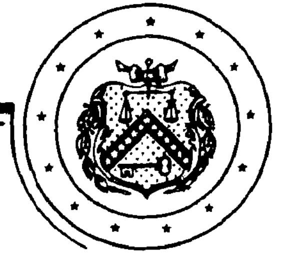
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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 October 6, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 6, 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 28, 1966

FOR IMMEDIATE RELEASE

ANTIDUMPING PROCEEDING ON
PIG IRON

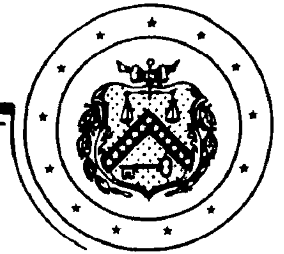
On September 1, 1966, the Commissioner of Customs received information in proper form pursuant to the provisions of section 14.6(b) of the Customs Regulations indicating a possibility that pig iron imported from the U.S.S.R. is being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The information was submitted by Congressman Thaddeus J. Dulski of New York.

Having conducted a summary investigation pursuant to section 14.6(d)(1)(i) of the Customs Regulations and having determined on this basis that there are grounds for so doing, 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 to determine the validity of the information.

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 January 1, 1966, through August 31, 1966, were valued at approximately $4,600,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 29, 1966

FOR IMMEDIATE RELEASE

ITALY PURCHASES $145 MILLION IN DEBT FROM THE UNITED STATES

Secretary of the Treasury Fowler and Harold F. Linder, President and Chairman, Export-Import Bank of Washington, announced today that the Italian Exchange Office (Ufficio Italiano dei Cambi) has purchased promissory notes aggregating $145.1 million from the Export-Import Bank of Washington. These notes were under loans made since 1959 to the Italian Credit Institution (Istituto Mobiliare Italiano) to assist in financing sales of various U. S. goods and services to Italian industry.

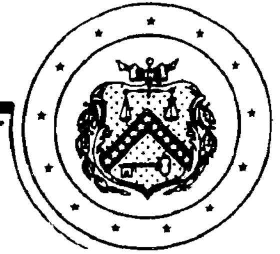
This purchase represents substantially all of the indebtedness of the Italian Credit Institution to Eximbank currently outstanding. The unpaid maturities under the loans are due, for the most part, in the next six years.

In July 1961,the Italian Exchange Office undertook a similar purchase of loans made in prior years.

oOo

F-638

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 29, 1966

FOR IMMEDIATE RELEASE

STATEMENT FOR THE PRESS
BY
SECRETARY OF THE TREASURY HENRY H. FOWLER
ON THE 1966 ANNUAL MEETING OF
THE INTERNATIONAL MONETARY FUND
AND
THE INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

Secretary of the Treasury Henry H. Fowler today issued the following statement:

I am gratified that the Governors of the International Monetary Fund have supported proposals for broadening and intensifying negotiations on the deliberate creation of international reserves.

Practically all the Governors who addressed the meeting endorsed the creation of a contingency plan to make this possible, with outright opposition from only two countries -- France and Chad.

I am also pleased that IMF Managing Director Schweitzer recommended a series of joint meetings of the Executive Directors of the International Monetary Fund and the Deputies of the Group of Ten, to develop solutions of this problem.

This second stage of negotiations would include representation of the full membership of the International Monetary Fund. Support for it came both from countries outside the Group of Ten and the members of the Group of Ten who reaffirmed on Sunday their recommendations made earlier, in July at The Hague.

In my remarks at this Annual Meeting I stressed the need for a greater sense of urgency and determination in pushing negotiations to a successful conclusion, and I expressed the hope of completing the development of a specific contingency plan for deliberate reserve creation in time for the next Annual Meeting.

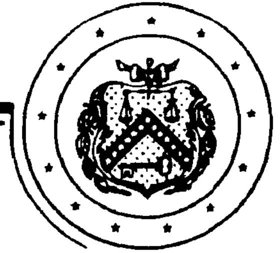
I repeat the commendation I made in that speech of the emphasis and the sense of urgency expressed in a recent report of the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the U. S. Congress concerning negotiations and enhanced international cooperation in the field of aid, trade, international monetary reform, and the better working of the adjustment process in the international balance of payments.

During this IMF meeting, in a series of informal conferences which I held with the Fund Governors from Africa-Asia, Latin America, and other non-Group of Ten countries, I have discovered very wide support for strengthening and improving international monetary arrangements.

With reference to suggestions by President Woods of the World Bank and many Governors, that development assistance should be increased, I would emphasize the readiness of the United States to participate in an expansion of the resources of the International Development Association on a basis that takes account of the balance of payments situations of the principal donor countries. I call upon donor countries enjoying balance of payments surpluses to devote these surpluses in greater measure to development financing, as an important aspect of strengthening the international monetary system as a whole.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

September 30, 1966

FOR IMMEDIATE RELEASE

STATEMENT ISSUED BY STATE, TREASURY, AND COMMERCE DEPARTMENT REPRESENTATIVES AT CONCLUSION OF MEETING WITH REPRESENTATIVES OF THE QUAKER ACTION GROUP OF PHILADELPHIA

The "Quaker Action Group" of Philadelphia recently informed Departments of the Government and issued public statements to the effect that it proposed to promote a mailing of parcels of medical supplies to Vietnam (including North Vietnam) beginning October 1st. It was emphasized by the Quaker Action Group that it would not follow the licensing requirements of the Federal Government and others should feel free to observe or ignore them. They emphasized their conviction that no government should exercise control over an individual's extension of humanitarian relief.

The Government representatives requested the Quaker Action Group to meet with them today in Washington for a discussion of the matter and in an effort to persuade the Quaker group not to take action which might be in violation of Federal statutes.

It was explained to the Quaker Action Group that the Government was prepared to give favorable consideration to applications for the export of parcels of assistance to both North and South Vietnam on the condition that the distribution of such parcels would be under the supervision or subject to inspection by a group such as the International Committee of the Red Cross, the Canadian Friends Service Committee, or a similar organization. Further, it was explained that the Government would consider issuance of a limited number of licenses for shipments of parcels of assistance to such an organization as the International Committee of the Red Cross or the Canadian Friends Service Committee for distribution anywhere in Vietnam at the discretion of such organization, with a view to developing channels to obtain supervision of such assistance.

It was emphasized to the Quaker Action Group that the strong concern of the Federal Government is that such parcels in fact be used for humanitarian relief purposes as the senders intend.

The Government representatives urged the Quaker Action Group to give careful consideration to the points of view expressed and to consider rescinding their previous advice to ignore licensing requirements since it was quite clear that neither they nor the Government desired to have parcels shipped to North Vietnam which might be used for military purposes.

The representatives of the Quaker Action Group stated that they would give careful consideration to the Government's request.

The Government's concern is that persons comply with (a) in the case of merchandise, the Export Control Act administered by the Commerce Department, and (b) in the case of remittances of funds, Treasury's Foreign Assets Control Regulations under the Trading with the Enemy Act. Shipments or remittances to North Vietnam, or its nationals, are prohibited except pursuant to license. The Trading with the Enemy Act is presently applicable by virtue of the 1950 Declaration of Emergency by President Truman.

The Government was represented by Robert Giles, General Counsel, Commerce Department; Miss Barbara M. Watson, Deputy Administrator, Bureau of Security and Consular Affairs, State Department; and Fred B. Smith, General Counsel, Treasury Department. The Government representatives were informed that the recently-organized Quaker Action Group is not an official organization of the Society of Friends or of the American Friends Service Committee.

oOo

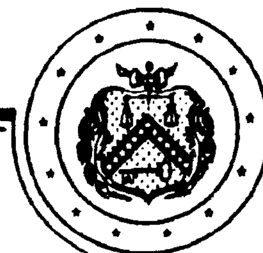
United States Savings Bonds Issued and Redeemed Through September 30, 1966
(Dollar amounts in millions - rounded and will not necessarily add to totals)

	Amount Issued 1/	Amount Redeemed 1/	Amount Outstanding 2/	% Outstanding of Amt. Issued
ED				
es A-1935 - D-1941	5,003	4,994	9	.18
es F & G-1941 - 1952	29,521	29,456	64	.22
es J and K - 1952 - 1953	864	850	14	1.62
'URED				
es E: 3/				
1941	1,857	1,611	246	13.25
1942	8,200	7,135	1,065	12.99
1943	13,200	11,514	1,686	12.77
1944	15,389	13,315	2,074	13.48
1945	12,072	10,246	1,826	15.13
1946	5,450	4,415	1,035	18.99
1947	5,150	3,998	1,152	22.37
1948	5,313	4,033	1,279	24.07
1949	5,238	3,897	1,341	25.60
1950	4,577	3,343	1,233	26.94
1951	3,962	2,893	1,069	26.98
1952	4,151	2,996	1,155	27.82
1953	4,733	3,309	1,424	30.09
1954	4,818	3,271	1,547	32.11
1955	5,015	3,307	1,708	34.06
1956	4,831	3,087	1,744	36.10
1957	4,539	2,801	1,738	38.29
1958	4,384	2,573	1,811	41.31
1959	4,103	2,380	1,723	41.99
1960	4,098	2,265	1,833	44.73
1961	4,124	2,130	1,994	48.35
1962	3,970	1,985	1,985	50.00
1963	4,408	1,974	2,434	55.22
1964	4,303	1,846	2,457	57.10
1965	4,210	1,571	2,639	62.68
1966	2,360	413	1,948	82.54
lassified	597	677	-80	--
l Series E	145,053	102,985	42,067	29.00
s H (1952 - Jan. 1957) 3/	3,670	2,006	1,665	45.37
H (Feb. 1957 - 1966)	7,601	1,445	6,156	80.99
.l Series H	11,272	3,450	7,821	69.38
l Series E and H	156,324	106,436	49,889	31.91
s J and K (1954 - 1957)	2,879	2,152	4/ 728	25.29
eries - Total matured	35,388	35,300	88	.25
eries - Total unmatured	159,203	108,587	50,616	31.79
eries - Grand Total	194,591	143,887	50,704	26.06

cludes accrued discount.
rrent redemption value.
option of owner bonds may be held and will earn interest for additional
riods after original maturity dates.
cludes matured bonds which have not been presented for redemption.

BUREAU OF THE PUBLIC DEBT

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday October 3, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated July 7, 1966, and the other series to be dated October 6, 1966, which were offered on September 28, 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 January 5, 1967		:	182-day Treasury Bills maturing April 6, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.647	5.353%	:	97.148 a/	5.641%
Low	98.618	5.467%	:	97.112	5.713%
Average	98.633	5.408% 1/	:	97.132	5.673% 1/

a/ Excepting 1 tender of $603,000
26% of the amount of 91-day bills bid for at the low price was accepted
100% 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	$ 19,563,000	$ 9,562,000	:	$ 12,811,000	$ 12,810,000
New York	1,274,284,000	837,381,000	:	1,018,366,000	675,366,000
Philadelphia	28,383,000	16,383,000	:	15,048,000	7,048,000
Cleveland	31,958,000	31,958,000	:	26,379,000	25,419,000
Richmond	16,093,000	16,073,000	:	7,786,000	7,786,000
Atlanta	45,857,000	39,857,000	:	37,083,000	28,083,000
Chicago	190,321,000	147,321,000	:	162,858,000	97,857,000
St. Louis	57,651,000	54,651,000	:	39,516,000	33,016,000
Minneapolis	19,175,000	19,175,000	:	10,628,000	10,628,000
Kansas City	23,876,000	23,876,000	:	18,116,000	18,116,000
Dallas	26,643,000	22,643,000	:	18,700,000	18,700,000
San Francisco	80,606,000	80,606,000	:	85,545,000	65,395,000
TOTALS	$1,814,410,000	$1,300,086,000 b/		$1,453,836,000	$1,000,224,000 c/

b/ Includes $276,370,000 noncompetitive tenders accepted at the average price of 98.633
c/ Includes $200,376,000 noncompetitive tenders accepted at the average price of 97.132
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.56% for the 91-day bills, and 5.92% for the 182-day bills.

642

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON H. R. 17607
MONDAY, OCTOBER 3, 1966, 10 A.M. EDT

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to present the Treasury's views on the bill before you, H. R. 17607. The promptness with which you have initiated this hearing is testimony to the Committee's awareness that our situation today calls for action without delay.

I favor the prompt enactment of H. R. 17607. This bill suspends the seven percent investment credit for a period of sixteen months, and limits the accelerated depreciation options applicable to new buildings or structures for the same period. The temporary removal of these special tax incentives to investment will

-- contribute to a restraint of inflationary developments that are proving disruptive of the financial markets and placing excessive strain on the capital goods industries;

-- promote a more sustainable rate of balanced economic growth in the next sixteen months and thereafter;

-- support a policy of monetary restraint while avoiding the burdens and risks of excessively tight money and high interest rates with their particularly discriminatory impact on the housing sector of the economy.

I. The Bill Related to the President's Full Program

This bill is an integral part of the President's program as set forth in his Message of September 8. Before commenting further specifically on H. R. 17607, let me briefly relate the bill to the balance of the program.

With regard to the credit market, the President's directive to me to review all Federal agency security sales and present them to him for approval will result in lessening the burden of Federal finance on the markets. The President's memorandum to Federal Departments and agencies of September 9, calling for careful and thorough pruning of Federal lending and borrowing activities, should reduce aggregate Federal credit demands on the private market.

It has already been decided to cancel the sale of FNMA participation certificates tentatively scheduled for September, and to have no FNMA participation sales in the market for the

rest of 1966 unless market conditions improve. Nor will there be any Export-Import Bank sales of additional participation certificates in the market in the rest of this calendar year. Market sales of Federal agency securities, meanwhile, will be limited in the aggregate to an amount required to replace maturing issues, while new money, to the extent genuinely needed, will be raised through sales of agency securities to Government investment accounts.

I am submitting for the record a copy of a Press Release issued Saturday, September 10, announcing these decisions pursuant to that portion of the President's Message.

Another important ingredient of the President's program was the passage of legislation to give the bank regulatory agencies and Federal Home Loan Bank Board flexible authority to regulate interest rates on consumer saving. This important step has now been taken, and the harmful process of excessive interest rate escalation in the field of consumer savings will be halted and hopefully reversed.

The announced program for reducing Federal expenditures for fiscal 1967 is yet another related measure to minimize the drain of federal financing on the credit market in

addition to reducing aggregate demand. The President has made clear his firm determination to hold down all lower priority expenditures by means of deferrals, stretching out the pace of spending and otherwise reducing contracts, new orders and commitments -- a policy and program with which I have been actively and affirmatively concerned from the initial preparation of the January Budget. The Budget Director will deal with this subject in detail. Of course, beyond the recitals given in the President's Message and the Director's statement here today, any final precise description of the amount and nature of the expenditure cuts must await action by Congress on the eight appropriation bills pending before it.

Now, I am mindful of the fact that many members of both Houses of Congress, Majority and Minority, have expressed their disinclination to consider any tax measure for the purpose of increasing revenues unless there have been firm efforts to hold down expenditures.

In my view, the President's program and the bill presented to you today are consistent with that position. First, expenditure reductions are very specifically provided for in the

program. Second, H. R. 17607 is not offered as a revenue measure, or tax increase measure, or tax reform measure. Its purpose is clearly and simply to suspend a stimulant to forces that are proving inflationary in the current economic situation.

The President's program represents, I believe, the most carefully chosen and prudent means, consistent with preserving stable economic growth within the framework of a free economy, to ease the strains to which our economy is now subjected. It continues the policy pursued by the Administration since the unforeseeable escalation of Vietnam in mid-1965, of taking fiscal steps designed to meet conditions as they unfold. This was exemplified in the Tax Adjustment Act of 1966 which applied the degree of restraint that conditions and prospects at that time required. The effect of the accelerated payment of taxes provided by the Act was supplemented by an administrative order accelerating the payment into Federal depositaries by employers of withheld income and social security taxes. We are now proposing another appropriate step again responsive to prevailing conditions. In view of the uncertainties with which we still are confronted,

we cannot yet offer blueprints for future programs. The only prudent course is to maintain a flexible, step-by-step approach.

II. Background for the Proposal

I turn now specifically to the action provided for in H. R. 17607. Let me again emphasize that the purpose of this bill is not to raise revenue; revenue aspects are incidental. So we do not come here today with any new estimates of revenues and expenditures for fiscal 1967. The bill is basically an anti-inflationary measure designed to relieve pressures clearly discernible in the money markets and capital goods sectors.

Nor is the bill a tax reform proposal. It is temporary in design and purpose.

As members of this Committee are well aware, I have always been a strong exponent of the investment credit. Our experience to date has, I believe, justified the faith I had in 1962 in the efficacy of the investment credit, and my view that it should become a permanent part of our tax structure. Since then industrial production has increased three times as fast as in the previous decade, real business

fixed investment has increased about three and one-half times as fast, and our economic growth generally has far surpassed its previous rate. This remarkable achievement is not due solely to the investment credit, but I firmly believe the investment credit has contributed substantially to it. Moreover, looking to the long-term future I am convinced that the encouragement provided to business by the credit to modernize and expand its use of capital equipment is essential to maintaining full employment with stable prices, and to keep our industry competitive with foreign goods. The President and his Administration fully share these views.

It is therefore, as I am sure you understand, only with considerable reluctance and after very careful study that we have reached the conclusion that suspension of the investment credit is an appropriate measure at this time. I stress suspension and not repeal since the credit should be regarded, as President Johnson's Message indicated, as an essential and enduring part of our tax structure.

Not only do I regard the investment credit as a permanent structural component of our tax system, but also one that

should be suspended only in times of active hostilities at least on a scale such as characterizes the present situation. Even under such circumstances I would, as past attitudes have made clear, be chary of suspending the investment credit unless the combination of a rapidly expanding civilian economy and increasing and special defense needs made this course compelling. I would be opposed to treating the investment credit as one of many countercyclical devices to be suspended and restored with the normal ups and downs in our economy.

The present situation is unique and was quite unforeseeable when the credit was adopted and stress was put -- and properly so -- on its permanent character. We then contemplated a peacetime economy and thoughts of a country engaged in hostilities on the present scale were far from our minds. But hostilities can cut ruthlessly across many plans and procedures designed to meet problems of a country at peace. We are deeply committed to an extensive military operation in Southeast Asia which so far has shown no clear signs of early termination. Its effects on our economy are clearly evident. We are also confronted with a monetary situation

of almost unparalleled tightness, which is producing distortions in our economy and the highest levels for many of our interest rates in more than 40 years.

Early in the year when the question of suspending the credit was raised in the Senate, we hoped that this change in the law could be avoided. In March the President invited to the White House more than 100 chief executives of companies which, together, are responsible for making a large portion of business plant and equipment outlays. At that dinner the President made a strong personal appeal to those present to carefully review their investment plans with the objective of screening out and setting aside for deferral whatever projects and expenditures they possibly could. Many of the executives did just that and wrote letters to the President confirming their plans to moderate their investment outlays.

Total plant and equipment outlays, however, continued to surge upward. The latest Commerce-SEC Survey released to the public on September 8, based on reports from business in late July and August, continued to forecast a 17 percent rise in plant and equipment outlays for this calendar year just as

it did last spring. It is true that the rate of expansion forecast for the second half of 1966 is smaller than the actual rate for the first half. But this had been forecast all along. Moreover, actual increases for the last twelve quarters of this series have consistently turned out to be higher than the forecasts. The real point is that the level of investment is simply too high under present circumstances and it is taking place despite developments in financial markets and sharp increases in interest rates paid by corporate borrowers, factors which some thought would restrict capital expenditures. Undoubtedly the increase would have been larger without the influence of the President's appeal for restraint.

III. Current Economic Need for the Measure

Our economy is now operating close to the limits of its productive powers. It is being called upon not only to meet emergency defense requirements associated with military operations in Southeast Asia, to support civilian activities of Federal, State and local government, and to produce an enormous flow of capital goods for business. It is at the same time providing the American consumer with the highest

standard of living the world has ever known.

The strain on our economic resources is most acute in the field of credit referred to above and in business investment, where the high level of activity has created a substantial excess of demand over supply, which will be augmented by future orders with consequent additional strain on money markets.

The high and rising levels of business investment spending have been a main cause of credit tightening, mounting interest rates, and diversion of financial -- and hence real -- resources away from other important areas of economic activity.

The resulting process of interest rate escalation -- the bidding up for a limited supply of funds -- deserve special comments here, because the muting of this process is a major part of the President's program to restore and maintain stable financial markets.

For several years of business expansion, 1961 through 1965, credit expanded with relatively little change in interest rates except in short-term rates. Credit demands grew, but the expansion of savings and bank credit were able to accommodate this expansion to the great benefit of the economy,

which enjoyed rapid growth. A major means by which banks were able to participate in this process of credit expansion was through amassing very large gains in time deposits, essentially by simply bidding for those deposits and then making the funds available for loans to business and other borrowers.

What had been from 1961 to 1965 an orderly process of credit expansion and real economic expansion acquired in 1966, however, some aspects of an unhealthy scramble for liquidity and credit, in which interest rates have shot up and credit has flowed in a lopsided fashion. Businesses, particularly corporate business, have taken a very large share, while the mortgage market has had to do with less. This result has emerged because total credit demands increased while supplies were being held back by a more restrictive monetary policy.

To meet heavy business demands for loans, the banks this year have bid up the interest rates on certificates of deposit, and due to more restricted credit availability that bidding had to be more aggressive than before. In addition, banks have made more room for business loans by selling their holdings of Treasury issues or allowing those holdings to mature

without being replaced with other Treasury issues. In this entire process, interest rates on Treasury issues and other securities rose.

Indicative of business demands on the banks, commercial bank loans to business rose at an annual rate of 19 percent in the first eight months of this year, while bank loans other than business loans rose at about a 9 percent annual rate, and bank investments registered almost no net change at all.

At the same time, business borrowing was exerting a substantial direct impact in the capital markets. Net funds raised through corporate bond issues in the first half of this year were at an annual rate some 80 percent heavier than the rate for all of 1965. Clearly, businesses have had to rely very heavily on external financing for their large investment outlays, despite the substantial growth in their internal cash flow. And just as clearly, this absorption of credit by business has been reflected in a smaller supply of funds for the home mortgage market, and has begun to threaten the supply of funds for State and local governments and for small business.

This is not to say that business borrowing has been the only source of pressure on the markets, but it has been a very prominent one. Treasury borrowing has not been a major factor; holdings of Treasury debt by the public (that is, apart from trust account and Federal Reserve holdings) was $4.1 billion lower on June 30, 1966 than a year earlier. Increased Federal agency borrowings and participation sales did exert some market pressure, which our new program is now designed to minimize. I might mention, too, that much of the increase in agency debt during the first half of this year reflected borrowings to fill credit needs in the mortgage area that arose essentially because of the dearth of funds for this purpose in the private market.

The strain on the credit market caused by our high rate of business investment has been paralleled by strain on our productive resources available for capital goods. Machinery and equipment producers are simply unable to keep their production up to the pace of their incoming orders. In every month during the year ending this August order backlogs for machinery and equipment have grown larger. The excess of orders over shipments has ranged between 4 percent and

11 percent in the first eight months of this year pushing backlogs up nearly $3 billion, so that they now stand about 27 percent above their August 1965 level. In just the past six months the backlogs have increased 14 percent. The backlog of metal cutting machine tool orders alone now equals more than ten and one-half month shipments.

It is true that reports on new orders for durable goods in July and August showed some decline. But this is a somewhat volatile series, particularly in the transportation category which dominated the August decline, and the series as a whole despite its general uptrend has shown declines on at least three previous occasions over the year preceding the July-August declines. Moreover, machinery and equipment new orders which declined in August, had risen significantly in July while orders for non-electrical machinery which attracted attention by declining in July, actually rose sharply in August. Both these changes incidentally largely reflect fluctuations in the highly volatile series of shipbuilding orders.

Obviously, a decision whether or not to take restraining action cannot be based on the behavior of orders over a one, two, or three month period, but rather must take account of

the persistent patterns of orders in excess of shipments, and the consequent persistent growth in backlogs.

A crucial factor in limiting the production of machinery and equipment is the acute shortage of skilled workers. In the second quarter of this year the unemployment rate in non-electrical machinery was down to 1.4 percent, and the average work week of 44 hours is now the longest in any manufacturing industry. The BLS reports the machine tool industry as having the tightest manpower situation in the country. Apparently a handful of occupations account for two-thirds of all the hard to fill jobs. These are machinists, machine shop workers, mechanics and repairmen, welders, tool makers and die sinkers, and pattern and model makers.

As a result of this excess demand and very tight supply condition, prices of machinery have been spurting upward. Electrical machinery prices have risen at a 4 percent annual rate so far this year, which incidentally is the reverse of a long downward trend that persisted through 1965. Prices of metal-working machinery have risen at a 7 percent annual rate in the first seven months of this year. In the period from January to July, price increases exceeded a 10 percent annual

rate for a number of important groups of machinery products: metal-working presses (14 percent), precision measuring tools (12 percent), transformers and power regulators (12 percent), and wiring devices (10 percent).

It should be noted that these price rises are taking place in a sector of the economy where productivity advances are very great and where we might otherwise have expected, if not actual price declines, at least a high degree of price stability such as we enjoyed prior to the Vietnam escalation in mid-1965.

Pressure on prices, the supply and wages of skilled labor, and on the financial markets has also been generated by the strong pace of construction other than single-family home-building. In the past 12 months ending in July commercial and industrial construction has averaged 27 percent above the preceding year. This high level of activity has put upward pressure on wage and material costs in the construction industry and contributed to scarcity of skilled labor. Construction prices have recently accelerated, and wage rates of construction workers have accelerated even more so. Moreover, if measures were to be taken to relieve credit stringency without

at the same time reducing the stimulus to construction, continued upsurge in construction could well be the outcome.

Looking toward the future, the Administration does not have precise quantitative estimates of investment expenditures for 1967. Nobody does. Experience tells us that the most reliable information will become available early in December when the Commerce-SEC survey will report on business investment plans for the first half of next year. Private surveys have worked hard and ingeniously to produce earlier forecasts of the year ahead, but their record in past years has been admittedly disappointing.

We do know some important facts about investment in 1967. We know that the large backlogs of orders and unspent capital appropriations underwrite a continued growth in investment outlays. We know that businessmen are likely to end this year with high operating rates, record sales, rapidly growing consumer markets, and expanding cash flow. They will have the incentives and they will have the means to undertake a further growth in investment expenditures in 1967. Furthermore, the inflationary pressure generated in the capital goods and construction sectors do not merely remain there. They spread to the

rest of the economy as capital goods producers compete strongly for men and materials which are needed in our defense, consumer goods, and even our consumer service industries.

It would be dangerous to let the economy proceed on its present course without a release from these pressures that suspension of the investment credit and the companion measure, suspension of certain forms of accelerated depreciation on newly constructed buildings, will help accomplish along with the remainder of the program set forth in the President's Message.

IV. Specific Provisions of H. R. 17607

The bill would temporarily suspend the investment credit allowed by section 38 of the Internal Revenue Code. The suspension would apply to (i) property acquired during the suspension period, (ii) property ordered during the suspension period, and (iii) property, the physical construction of which begins during the suspension period. The suspension period would begin on September 9, 1966, and end on December 31, 1967.

Machinery and equipment acquired during the suspension period under a contract binding upon the taxpayer prior to September 9 would not be affected by the suspension. Also,

property would be unaffected if its physical construction began before the beginning of the suspension period. A general exemption would permit each taxpayer to continue to utilize the credit to the extent of $15,000 of investment or orders during the suspension period. Furthermore, special rules would continue the availability of the credit in certain situations involving the equipping of previously begun structures, the completion or assembly of items of machinery or equipment, and the consummation of lease obligations or financing transactions.

An amendment added on the floor of the House would exempt air and water pollution control facilities from the operation of the suspension. This exception is only justifiable on the grounds that pollution activity frequently constitutes a violation of State or local law. In those situations where one is required by law to abate activities causing pollution, his claim to the investment credit rests on the same principle as the claim of one bound by contract to acquire property, that is, a legal obligation to proceed. Since this is the limit of the justification, we would recommend that the amendment apply only to those situations where the taxpayer

is, in fact, required to install anti-pollution facilities to avoid penalties under State or local law.

Investment credit carryovers from periods prior to the suspension period could be used during the suspension period only to the extent that they would have been allowed had there been no suspension. However, to permit taxpayers greater scope for the utilization of both carryovers and current credits after the suspension period, the bill would effect two significant liberalizations of present limits upon the credit. It would, first, extend the carryforward period from 5 to 7 years -- enabling taxpayers to make future use of investment credit carryovers which might otherwise expire unused as a result of the suspension period. Secondly, for years after the suspension period, the bill would raise to 50 percent of taxable income the existing 25 percent limitation upon annual utilization of the investment credit.

The bill's suspension of the right to elect certain methods of accelerated depreciation would, generally, parallel its suspension of the investment credit. For real property (other than that eligible for the investment credit) whose physical construction is begun or ordered during the period

from September 9, 1966 through December 31, 1967, the bill would deny the accelerated forms of depreciation first granted by the 1954 Internal Revenue Code -- most significantly, the double declining balance and sum of the years-digits systems. This denial would apply for the entire useful life of the property. Since the 1954 Code methods have never been available for used property, the effect of the suspension would be to restrict depreciation of real property whose construction is begun or ordered in the suspension period to the methods presently allowable for used property. As is now true in the case of used real estate, the 150 percent declining balance system would continue to be available.

Provisions similar to those governing suspension of the investment credit would make the suspension of accelerated depreciation inapplicable where real property construction began before September 9, 1966, or begins thereafter pursuant to a pre-existing binding contract. Special rules, comparable to the investment credit provisions, would allow accelerated depreciation for certain previously planned, equipped buildings and for structures erected in accordance with certain pre-existing lease obligations.

I have mentioned that the bill applies to orders placed during the suspension period. In that respect it differs from other bills, addressed to the same end, which have been introduced this year. The reason for applying the suspension to orders is to enlarge its scope and make more immediate its effect upon the economy. If the suspension were applied only to installations, it would have no impact in all those situations in which orders are placed during the suspension period, but ultimate delivery of the ordered equipment is deferred until after the termination of the suspension period. Yet such orders make direct and immediate demands upon the resources of the economy; they cause current planning, current hiring, and current capital expenditures by the suppliers to whom they are directed; and action inapplicable to them would fail to relieve that pressure. Hence, the bill's application to orders is essential to its effectiveness.

As passed by the House, H. R. 17607 accommodates the pressing economic necessity for suspension of the investment credit and accelerated depreciation to the demands of administrative practicality and fairness to taxpayers. The accommodation which the bill achieves is a liberal one. The

binding contract exception, for example, is substantially more broadly drawn than the similar provision in the bill which Chairman Long introduced on this subject last month. The $15,000 exemption will remove a multitude of small taxpayers from the practical effect of the bill; and it will thereby diminish very considerably problems of administration and taxpayer compliance. The bill's special provisions for the completion of items of machinery and the consummation of building equipment plans -- extending the full investment credit or accelerated depreciation to situations in which taxpayers have begun, acquired, or legally committed themselves for the major portion of a given unit of equipment or structure -- represent liberal hedges against possible harshness in the areas to which they apply.

Further liberalization of the bill, however, must be strictly avoided. Any such modifications -- either by the provision of special exceptions for particular industries, areas, or kinds of investments, or by any other means -- will run grave risk of impairing substantially the desired economic effect of the measure. It has, for example, been suggested that taxpayers be permitted to claim the investment credit and

accelerated depreciation for a broad variety of investment projects and programs which they had planned or announced before September 9, or to which they are, in one degree or another, economically committed. Such treatment has been sought for multi-facility plants and large industrial complexes, involving billions of dollars of planned investment. If the Congress should accede to such requests, the restraining impact of the bill upon our economy could be very considerably dissipated. Unless such taxpayers are asked to decide between actual activity now and deferral of activity until after the suspension period, we will be unable to achieve the moderation of investment that is required. Hence, I urge you strongly to approve the substance of the bill before you, without the addition of special exceptions or debilitating modifications.

V. Effects of the Bill

Just as the enactment of the investment credit provided a strong incentive to investment, so its suspension would sharply reduce the incentive to invest during the suspension period. Moreover, the fact that the suspension would be

temporary adds a reinforcing incentive to defer capital projects until the credit is restored. For example, on typical investments in machinery and equipment the investment credit raises the after-tax rate of return from 10 percent to 12 percent or 13 percent. Thus, when the credit is suspended, the investor is offered the difference between earning 10 percent if he begins the project during the suspension period, compared to earning 12 to 13 percent if he defers launching the project until after the suspension period.

As a consequence of this effect on incentives, the current demand for capital goods should be significantly moderated. In the first instance, the impact should show up in a level of orders below what would have otherwise been the case. For those items which can be ordered and delivered in a short space of time -- such as trucks, office equipment, store fixtures and air conditioners -- the effect of a diminished order flow on investment expenditures and on activity by the producers of the equipment should be quite rapid.

When the order to delivery period is longer (one year or more) the moderation in the order flow should still have a prompt and favorable effect in relieving pressures on our

scarce resources. The production plans and activity of the capital goods producers respond promptly to a change in their order inflow. Their incentives to scramble for and hold on to skilled labor and scarce materials will be diminished and their accumulation of inventories of goods in the various stages of production will be slowed down. As a result the upward pressures to prices and wage rates should be held down. Even in those cases where abnormally large order backlogs prevail, any reduction in the inflow of new orders should have an influence on prices before there is any effect on production.

By moderating the demand for investment goods, suspension of the investment credit will make a marked contribution to relieving pressure on money and financial markets. True, suspension of the credit does mean some reduction in the cash flow of business firms putting them under a need for funds to replace the loss of the investment credit on those orders which are not deferred. But this will be more than offset by the reduction in credit requirements resulting from the deferrals of orders for machinery and equipment purchases induced by the suspension.

In moderating investment demand at this time, suspension of the credit will also help to improve our current or short term balance-of-payments position. The high levels of investment demand have contributed to a rise in our imports relative to our exports. Imports of capital equipment have shown a large increase in the first half of 1966 over a comparable period of 1965 -- 44 percent -- and there is evidence that our exports of machinery have been held down because United States producers have given priority to domestic orders. For example, while foreign orders in the machine tool industry have run well above a year earlier, shipments are lagging behind last year totals.

In part, the moderation of demand for capital goods induced by suspension will be reflected in a reduced output of capital goods. To the extent that this is the case, it implies some temporary sacrifice of growth of capacity, and some slowdown in the rate of plant modernization and productivity increases. Indeed it is these benefits from the investment credit that I have stressed and value highly. But the sacrifice will not in any event be of importance. In the first place, it must be recognized that in most areas

of the economy today, skilled labor rather than capital is the limiting factor on increased production. Furthermore, suspension of the credit would not curb top priority investments: a project that offers unusually large short-run returns in cost reduction or capacity increase will also show a very handsome profit return even without the 7 percent investment credit. Most of all, it must be remembered that while the production of a capital good uses up resources now, its contribution to productivity and cost reduction after it is in operation comes gradually through time and not instantaneously. (For example, if real investment in all industries were reduced by 5 percent during the year 1967, by the beginning of 1968 our industrial capacity would be only one-half percent less than otherwise.)

Therefore, I believe that any temporary sacrifice of capacity growth caused by suspension of the investment credit is in the present case more than balanced by the immediate benefit of tempering the unique, short-run inflationary pressures that now confront us.

Moreover, there is evidence that at present investment is proceeding at a rate that might not be sustained in the

long run. Therefore, it is desirable to slow it down now, so that it will proceed at a more even pace in the long run. When the investment credit is reinstated there should follow a certain catching-up period of accelerated investment by business. This will occur at a time when there is less strain on the economy than at present, and the loss of capacity due to suspension of the credit will thus only be temporary and not permanent.

Suspension of accelerated depreciation on newly constructed buildings will temporarily remove this special incentive to construction, and in a manner parallel to suspension of the investment credit will offer a strong inducement to defer the launching of construction projects until after the suspension has terminated. Thus it will contribute to restraining inflationary forces by reducing the pressure from this source of demand on money and credit markets, and on markets for skilled labor and construction materials. This will be particularly favorable to the single family homebuilding industry -- which has borne the brunt of the tight money and high interest rates we have been experiencing. Industrial, commercial and apartment construction are closely competitive with single

family home construction both in financing requirements and use of labor and materials.

Conclusion

In conclusion, I should like to emphasize the H. R. 17607 is an essential part of the President's program to mute inflationary pressures. I believe it to be a fair, workable, and effective measure. Its enactment in its present form is urgently needed and I strongly request this Committee to approve the bill as promptly as possible.

TREASURY DEPARTMENT
Washington

FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT THE INTERNATIONAL COMMITTEE MEETING
OF THE AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.
AT THE ERAWAN GARDENS HOTEL, PALM DESERT, CALIFORNIA
TUESDAY, OCTOBER 4, 1966, AT 12:30 P.M., PDT

EDUCATION, RESEARCH AND DEVELOPMENT AND THE UNITED STATES BALANCE OF PAYMENTS

My public service began at a turning point in the recent history of the United States.

I came to the Congress in 1959. That date roughly coincides with the coming of awareness in this nation that the world had changed -- and that the United States could no longer ignore a deficit in its balance of payments that had persisted throughout the decade, with the sole exception of 1957.

You will remember that it was in early 1959 that most of the industrial nations in Europe qualified under Article VIII of the Articles of Agreement of the International Monetary Fund and made their currencies freely convertible for non-residents. This meant that, for the first time since the early 1930's, the currencies of the great trading nations of the world could move freely in international commerce.

This was a milestone towards which United States policy had been directed since the end of World War II. With it we realized the hope that we had expressed when the Bretton Woods Agreement was formed: that money and goods should move freely between nations as the basis for ever-expanding world trade.

Our parallel hope -- that freely convertible currencies would be the basis for expanding world trade -- has since then become a fact. Since 1959 world trade has increased by about two-thirds.

However, my seven years in public service have taught me an inescapable fact of life -- the solution of one set of problems, the attainment of a particular goal, usually uncovers a whole new group of perplexing issues for which there are no easy answers. This was precisely what happened in 1959.

Although the world took a giant step forward in its financial and trading relationships, the 1959 deficit in the United States' international accounts was $3.9 billion and that year's gold loss was $734 million, not including an increase of $344 million in our International Monetary Fund gold subscription. This deficit caused the first attempts by a few thoughtful men to persuade this nation that we were facing a completely new set of problems that had to be considered.

A brief review of the moves that this nation has taken to face up to these problems can well lay the basis for my thesis. The first steps in 1960 and 1961 were directed squarely at the Government's own contribution to the problems. The gold budget was introduced -- to determine for the first time precisely which Government expenditures used up foreign exchange and how much.

The foreign aid program was shifted from dollar grants and offshore procurement increasingly in the direction of a transfer of real resources -- trucks, tractors, machinery and food -- rather than financial resources. Our military expenditures overseas came under close scrutiny, and the policy of offshore procurement was strictly limited where it was not fully reversed.

All these efforts bore fruit. For the period from 1960 to mid-1965 -- when the escalation of hostilities in Vietnam began -- the Government's foreign exchange expenditures declined substantially. Net military expenditures dropped by about $1 billion, while net expenditures in foreign aid declined by some $400 million.

Beginning in 1961, a vigorous parallel drive was launched to expand exports. It paid off handsomely, as an examination of our export totals and trade surpluses for the years 1961 through 1964 will reveal.

Exports rose steadily in this period, from $19.954 billion in 1961 to $25.297 billion in 1964. In the same years our trade surplus rose more than $1.2 billion, from $5.444 billion to $6.676 billion.

These two efforts worked in concert with various financial initiatives, such as the General Arrangements to Borrow, the gold pool, and the swap agreements.

The General Arrangements to Borrow, better known as the "Group of Ten," came into being as it became evident that the resources of the International Monetary Fund in the form of currencies other than dollars and sterling might prove to be insufficient in the event of a threat to the stability of the world monetary system.

The parties involved are the ten principal financial centers within the membership of the Fund. Switzerland, which is not a member of the Fund, is associated through special arrangements. The ten countries agreed among themselves to lend to the Fund, in case of need, amounts of their own currencies totalling $6 billion.

The London gold pool agreement is a flexible unwritten agreement under which eight governments agreed to provide gold up to a certain amount when demand in the market exceeded supply. In return they received the right to get gold when supply exceeded demand.

The swap agreements were designed to deal with highly volatile movements of capital between financial centers. Sudden exchange market pressures need to be met firmly and promptly to avoid disruptive speculation.

To meet such situations the United States, in cooperation with eleven major industrial countries and the Bank for International Settlements, established a swap network of short-term facilities totalling over $2.5 billion.

Under these arrangements, the United States is able to acquire currencies needed for exchange market operations through short-term swap operations rather than selling gold to foreign monetary authorities. When the temporary outflow of funds reverses itself, the swap can then be reversed.

Working together, these efforts moved us rather steadily toward a better balance. But again, as familiar problems were resolved, new and perplexing ones appeared.

In 1963 the demands of foreign borrowers on our long-term capital markets became so heavy that we asked for and were given authority to impose an Interest Equalization Tax that tended to bring the costs of money here more nearly into line with those of Europe and Japan. The purpose was to relieve the strain on the dollar caused by the tendency of Europeans and Japanese to borrow in our relatively low-interest-rate money market rather than in their own markets, where higher rates were prevailing.

This move dealt effectively with portfolio investment. But late in 1964 an unprecedented jump in foreign lending by U.S. banks and direct investment overseas by U.S. corporations prompted creation of the President's new balance of payments program early in 1965. This included the very effective program for voluntary restraint of bank lending and direct foreign investment by businesses in most developed countries, as well as extension of the Interest Equalization Tax to long-term bank lending.

The result of these moves was that, for the calendar year 1965, our balance of payments deficit on the so-called overall or "liquidity" balance -- which takes into account all officials and private transactions -- hit the lowest level since 1957: $1.355 billion.

For the first six months of this year we were roughly holding our own at about the 1965 level, with a deficit on the liquidity accounting of about $700 million -- $1.4 billion at an annual rate. This was in spite of the foreign exchange expenses of the Vietnam operations.

Our heavy involvement in the defense of freedom in Vietnam has directly increased our foreign exchange costs for military expenditures in the Far East by nearly $1 billion. This does not take account of the indirect consequences, which are reflected in a rapid rate of increase in imports that has diminished our trade surplus.

The latter reference is to a trend that began last year and has gained momentum in 1966 -- a shrinkage in our trade balance from an average of $5.3 billion in the period 1960 through 1964 to $4.8 billion in 1965 and to a seasonally adjusted annual rate of $3.9 billion in the first six months of 1966.

Our exports for this year are performing about as we expected, totaling $28.5 billion at an annual rate for the first half of the year. But imports have jumped at an accelerated rate for a 14 percent increase over 1965 to an annual rate of about $24.5 billion.

I don't mean to sound like an alarmist before the representatives of an industry which has increased its exports in recent years as well as you have. Neither a single year nor a two-year period necessarily establishes a trend.

If you look back over our trade surplus figures for the last 15 years, you see gains and losses, upturns and downturns, in individual years. But you also see that our trade surplus in the 1960's is vastly greater than it was in the 1950's. The trend of our trade surplus averages for five-year periods is sharply upward. This year's surplus is smaller than we have become accustomed to recently, but it is still well above the average for the 1950's, which was about $3.2 billion. Clearly, our basic trade position is very strong.

Nevertheless, we are running a substantial net international payments deficit on military account, on foreign aid account -- even with our tied-aid provisions -- and on capital and tourist accounts. These are not budgetary costs; they are net losses in foreign exchange.

It is obvious that an even greater trade surplus must play the major role in offsetting those deficits. So any

reduction in our trade surplus, even if it represents a temporary dip in a firm upward trend, is a matter of serious concern.

One part of the solution, of course, is to restrain potential excesses in the economy which generate a heavy level of imports and which also make it less attractive to export. We have tackled that problem through the budget by vigorously pursuing the President's directive to meet our expenditure requirements through current revenue. In the fiscal year that ended on June 30, 1966, our budget deficit of $2.3 billion was the lowest in actual terms since 1960, amounting to about 2 percent of total budget expenditures. The President has reaffirmed in recent days his determination to equal or to better that result in fiscal year 1967.

We have accomplished this by a rigorous control of expenditures. You may be surprised to know that, since President Johnson took office, our budgetary expenditures, excluding special Vietnam costs, have increased by only about $3.4 billion since 1964.

We also moved towards our objective with the tax proposals that were enacted early this year. We are continuing this movement with the proposals which the Congress currently has under consideration. These proposals, as the President has stated, are not for the purpose of raising revenue. They were designed to suspend tax incentives that were contributing to excess demand in certain sectors of our economy -- in the areas of new plant and equipment and commercial construction. I believe our record this year proves that this Administration is determined to take whatever fiscal action is called for to keep our economy stable and our budget in balance.

We have moved on problems as they became apparent, sector by sector. We believe that this step-by-step approach is the right course, given the fact that we are experiencing our greatest and longest period of prosperity and that a broad-axe attack on such delicate problems could have disastrous effects on the lives of millions of our people, to say nothing of the effects on world trade.

But there are those who believe our approach has been deficient and that we should have attempted to follow some sort of grand design to balance our international accounts once and for all.

I have lived through these years. Offering no excuses, I will state that the area is new, the academic work is inconclusive, and the stakes are enormous. Therefore, I believe that the cautious approach we have followed has been prudent and fully justified.

But the longer I consider the problem the more convinced I am that there is one aspect of national policy that does constitute a grand design for preserving the strong and viable position of this nation in the world's finance and commerce. This continuing thrust of national policy is the research and development effort of American industry and Government and the educational effort that provides its foundation.

As you look at the position of the United States vis-a-vis the rest of the world, it is obvious that our strongest competitive positions often coincide with those areas where our research and development efforts are most intensive -- areas such as aircraft, agriculture, computers, automatically controlled machinery, electronic componentry and measuring instruments, industrial controls, agricultural and earth-moving machinery, food manufacturing equipment, dental and surgical equipment, and chemicals.

Computer exports, for one example, rose from $50 million in 1960 to $225 million in 1965. In many areas we have carved out a competitive position that is almost unique.

It would be appropriate here to mention the part that your industry plays. Aircraft of all types, of course -- commercial, private, military, including helicopters -- are major export items. So are engines, parts, accessories, and instruments. Further, there is the broad field of electronic devices for communication, navigation, remote control and automation in which you are intimately involved, frequently with other industries.

The importance of your industry in the domestic economy is attested by your total sales of almost $21 billion in 1965 and your estimated sales of over $22 billion this year. One dollar out of every $15 in value added by manufacturing industries to our Gross National Product in 1965 was added by the aerospace industry.

So it is no surprise to learn that your exports totalled almost $1.5 billion in 1965 and accounted for 5.4 percent of total U.S. exports. Your projected exports of $1.55 billion this year will make 1966 the seventh straight year that your exports have exceeded $1 billion.

Prediction is a risky business. But recent trends indicate that our reliance on the research and development-related sector of our export totals might well increase.

The total amounts expended on research and development give us some reason for optimism in this area. Business and Government funds devoted to research and development for the years 1961 through 1965 totalled more than $60 billion.

I am well aware there is no precise relationship between amounts expended and results achieved. Still, these totals represent an enormous and an increasing national effort that should provide the basis for maintenance of a viable export position.

Even more dramatic than the increase in these research and development totals are the basic inputs on the Federal, state and local levels to provide an educational system that is capable of serving as the foundation for this rapidly expanding sector of our national life.

State and local governments have been doing a heroic job in this area. They have expended a total of more than $100 billion on education at all levels in the last four years. But financial resources at the state and local level have been under intense strain, and the need for a Federal supplement has been apparent for years.

As a nation we have finally faced up to this need after years of delay. The breakthrough came first in 1963 in Federal

assistance to colleges and universities, with the Higher Education Facilities Act and the amendments and extensions of the National Defense Education Act. The second breakthrough occurred when President Johnson's program of aid to elementary and secondary education passed the Congress in 1965.

Since President Johnson took office Federal assistance to education has been legislated ranging from Operation Headstart to the most advanced graduate work. Let me list some of the education bills that have been passed since 1964:

National Defense Education Act Amendments of 1964

Elementary and Secondary Education Act of 1965

Establishment of National Foundation on the Arts and Humanities to promote progress and scholarship in humanities

National Vocational Student Loan Insurance Act of 1965

Health Professions Educational Assistance Amendments of 1965

Higher Education Act of 1965

Financial assistance to public elementary and secondary schools in major disaster areas

Our Federal Administrative Budget expenditures in this area have more than doubled, going from $1.3 billion in fiscal 1964 to $2.8 billion in 1966. I want to remind you that they have been expanded not by merely adding on to the budget but by substituting them in place of lower priority programs. That was the method that President Johnson used to achieve this great expansion in our Federal education efforts with an expenditure increase for the period of only $3.4 billion, exclusive of special Vietnam costs.

As I read American history, it seems to me that the American people have been engaged in a passionate struggle for an ever better and broader educational system since the first

days of the Republic. The trend has run in a straight line from the ordinances establishing the Northwest Territory and setting aside certain lands for school purposes, through the early days when, in my state of Indiana, teachers were paid with pigs and whisky, through the establishment of the Land Grant colleges to the educational acts that are currently pending before the Congress today.

We all owe a great deal to that trend, which has given us a society within which most Americans can gain the education which is absolutely essential if they are to make the most of their talents.

We also owe a great deal to the trend in research and development programs, for without them we would be lagging far behind our national potential.

Education, research, and development together have enabled us to provide the human factor in the equation which has given us the highest standard of living in history and opened more exciting frontiers to us than any known before to man. Without them, not all the land or mineral resources in the world would give us the America we know and enjoy today.

The other side of the coin is that education, research, and development have brought us greater responsibilities. Our role of world leadership surely stems less from the natural resources we control than from the fact that we know what to do with them. The economy in which our technology plays so large a part is itself a responsibility. We have dealt successfully with the problem of inadequate growth and we have succeeded in reversing the trend of our balance of payments. But now we must cope just as successfully with inflationary tendencies and we must finish the job by bringing our international payments into balance. Failure will jeopardize the dynamic economic base on which our society, our standard of living, and our political stature in the world depend. Further, the long way we have come by fostering education, research, and development teaches us that to go on towards the frontiers of knowledge and to hold and improve upon our hard-won gains will require more of the same.

A study of the costs of achieving our broad national goals, conducted by the National Planning Association, has recently given us an interesting view of the order of magnitude of the tasks we are going to face in the decade ahead.

Many of you are familiar with it, I am sure, so I will not dwell on its details. The study uses actual expenditures in 1962 at all levels, both public and private, as its point of departure. It provides us with figures of $29.7 billion in education and $16.85 billion in research and development.

According to the study, by 1975 we will have to increase our expenditures for research and development to more than double the 1962 level -- to $38.85 billion in 1962 dollars -- if we are to achieve our goals in that area. And, the study goes on, we will have to increase our educational expenditures by well over two and one-half times the 1962 level -- to $82.1 billion, again in 1962 dollars -- to reach the goals we aspire to in that area.

Our actual expenditures in 1965 were up significantly from 1962 -- to $39 billion for education and over $20 billion for research and development, both in current prices. Further, our Gross National Product has been increasing a little faster than the rate assumed in the study.

But my purpose is neither to agree nor to disagree with a particular study but rather to stress the magnitude of the effort we have yet to make to achieve the educational and research and development goals which reflect our desires and needs.

I am confident that, if our national product has not reached the level necessary to finance achievement of our goals a decade hence, it will at least be very close to it. But I think we all know that things don't just happen. We have a good educational system because many people over the years have thought such a system was a goal worth working for. We have achieved an almost incredible technological sophistication, again only because you and many others wanted to achieve it and worked and studied to achieve it.

Our knowledge that a new set of difficulties always comes with solution or dissipation of the old and familiar problems tells us that we cannot rest on past achievements. Some of us tire in the process, and new people come to take our places, but the work must go on.

You can rest assured that there will be no sag in the upward trendline of effort and investment for education and for research and development under President Johnson. If you have never heard the President address himself to the potentials of education in the United States and the world, you have missed an extraordinary experience!

I suppose it is only natural for those of us in the Treasury to be extremely cautious about any new programs that cost money. I am sure that our predecessors, going back to Alexander Hamilton, reacted in almost precisly the same way.

However, the expenditures that this nation has made on education have played such a predominant role in the growth of our domestic economy that even the most cautious financier must admit the payout on these expenditures has been enormous.

The payout from research and development is something we are just beginning to realize, and we are deficient in quantitative measures. But we can be sure it, too, is munificent.

I think we Americans -- and probably you of the aerospace industries more than most -- realize now the fundamental soundness of the beliefs of our predecessors, going back to the Founding Fathers, that investment in our human resources -- in ourselves and in our youth, in education and in opportunity -- is the best use we could possibly make of our money.

oOo

TREASURY DEPARTMENT
WASHINGTON

FOR RELEASE: ON DELIVERY

REMARKS BY THE HONORABLE W. TRUE DAVIS
ASSISTANT SECRETARY
AT THE MISSOURI BANKERS ASSOCIATION
ST. JOSEPH, MISSOURI
WEDNESDAY, OCTOBER 5, 1966, AT 3:15 P.M., CST

NATIONAL ECONOMIC OBJECTIVES

It is good to be home again, and it is a pleasure to meet with bankers of the State of Missouri. For you, more than any other group of citizens, are afforded a continuous opportunity to gain a clear perspective and sensitive understanding of financial and economic conditions within your immediate communities. We in the Treasury are indebted to you, and to the entire banking fraternity, for the steady inflow of financial and business intelligence with which you provide us. This indispensable intelligence assists us in formulating future contingency plans and in initiating immediate measures to insure continued economic growth and stability.

We in the Treasury and you in the banking fraternity have mutual interests and concerns. The most important of these concerns are the economic welfare of our country and the individual well-being of our citizens. For the past six years, this Administration, as President Johnson recently stated, has been trying to make economic policy "the servant of our quest to make American society not only prosperous but progressive, not only affluent but humane, offering not only higher income but wider responsibilities, its people enjoying not only full employment but fuller lives."

No nation has ever enjoyed such prosperity, nor have so many people at one time ever participated in such prosperity. Almost 76.5 million people are now working, and less than four percent of our labor force is unemployed. Our economy today is healthy and strong. For 68 months -- more than five and one-half years -- the trend of our economy has been pointed in one direction only:

and that direction is up! The remarkable, the unique feature of this rise has been the fact that it has taken place in the presence of a fine balance of consumer demand and capacity to produce.

Today's prosperity did not come about by accident. Today's prosperity is the direct result of this Administration's intelligent and wise use of economic, fiscal, and monetary policies since 1961. President Johnson's anti-inflation program, now before the Congress, is designed to preserve this fine balance of demand and capacity to produce, and to extend our gains through a call upon all -- business, consumers, the Federal Government and the Congress -- for responsible economic conduct in the months and years ahead.

It was Proust who pointed out that in the remembrances and understanding of things past the present becomes more viable, more meaningful, more clearly comprehended. Remembrances of economic conditions in the past is essential if we are to have a clear perspective of how far we have progressed, how solid that progression now is, and how firm the foundations are for building the future. When our current economic expansion began in 1961, our economy was only slowly emerging from a protracted recession.

This recession was only one of four with which we had been afflicted during the post-war years. Unemployment was intolerably high, and business investment was abnormally low. It had failed to maintain adequate levels of growth, and it was far less than necessary to generate vigorous economic growth and enable us to compete in world markets against other industrialized countries whose annual rate of growth surpassed ours. We were also plagued with a chronic series of deficits in our international balance of payments. These averaged more than $3½ billion a year for three years. They not only rendered the dollar vulnerable, but they threatened the international monetary system which the dollar supported.

It is true that prices had remained relatively stable during the 1958-1961 period. This price stability, however, was achieved at the expense of not achieving our national goals of full employment and sustained, adequate economic growth. It was the result not of a pattern of positive and productive growth, but rather the result of a pattern of anemic and inadequate growth that had shown itself exceedingly susceptible to recession.

Our aim in 1961 -- even as now -- was to pursue and achieve four national economic goals simultaneously:

-- price stability;

-- strong and sustained economic growth;

-- full employment;

-- relative equilibrium in our international balance of payments.

To an extend unprecedented in a free economy we have moved -- simultaneously -- toward these accomplishments. We have refused -- and we still refuse -- to accept the old thesis that high employment can only be achieved at the expense of price stability, or that price stability must be accompanied by considerable unemployment. These economic goals are not incompatible. It was not necessary then, nor is it now, to sacrifice any one of these goals in our pursuit to secure and maintain all of them. Our course of action then -- as now -- was to take a flexible step-by-step approach to the solution of our economic problems and the achievement of our national economic goals. In pursuing this course we recognized then -- as we do now -- that inevitable conflicts will arise in the attainment of these goals. The existence of such conflicts, however, does not negate the wisdom of our approach to their solution, nor justify our pursuit of one goal at the expense of another. It merely means that we rationally determine the relative speed with which we wish to simultaneously pursue all of our goals.

To restore the vitality of the private economy, it was essential to liberate American enterprise from policies that had stifled private investment. It was imperative to provide business incentives that would enable business and industry to expand and grow, thus enabling them successfully to meet increasing foreign competition, while providing jobs to alleviate chronic unemployment. To bring this about, the Treasury early in 1962 revised depreciation guide-lines for tax purposes, and, at the President's request, Congress enacted a tax credit of 7 percent on new investment in machinery and equipment. These measures encouraged

productive new business investment that meant new jobs, greater economic growth, greater productivity and lower costs -- all of which are essential to continued price stability and progress in our international balance of payments.

Simultaneously, we undertook a massive effort to attack the problem of structural unemployment by adopting pioneering new efforts to train and retrain unskilled and semi-skilled workers to make them more employable and more productive.

Paralleling these fiscal measures -- revised depreciation guide-lines and the 7 percent investment tax credit -- we also adopted a dual approach to over-all economic policy. Through a massive, across-the-board income tax reduction we sought to increase the general level of demand in the private economy and to enhance the incentives for productive investment. Through wage-price guide-lines, we encouraged wage-price restraint so that measures for growing productivity and for growing aggregate demand would result in rapid and real economic growth.

Debt management during this period was called upon to support the Administration's efforts to stimulate the economy, help achieve our balance of payments objectives, and help maintain a financial environment favorable to home expansion and external balance. By adding to the market supply of very short-term issues, notably Treasury bills, the Treasury materially assisted the Federal Reserve System in maintaining our short-term money market rates in reasonable alignment with those abroad. This appreciably reduced the incentives for short-term capital flows to foreign money markets.

The Treasury also issued short-term bonds to foreign monetary authorities, denominated in their own currencies, as a means of absorbing foreign monetary balances that might have otherwise been pressed upon us for conversion into gold.

Such measures in the fiscal, monetary, and economic areas as I have briefly discussed had the desired effect of reducing our balance of payments deficit to more manageable proportions, appreciably encouraging the free flow of credit so vital to industry, home buyers, and State and local governments, and stimulating the economy by promoting necessary business and industrial expansion. The end result of these enlightened policies was the greatest upsurge of economic well-being in the history of the world.

A few notable statistics emphasize our achievements.

Gross National Product: In 1960, our GNP totaled $503.8 billion. Today our GNP is running at an annual rate of more than $732.6 billion.

Personal Income: In 1960, total personal income amounted to $401 billion. In August of 1966, it was running at an estimated annual rate of $585 billion.

Corporate Profits after Taxes ran at an all-time high of some $48.7 billion in the first half of this year. This compares most favorably with the $26.7 billion rate of after-tax corporate profit in 1960.

Personal Income per capita of the Farm Population rose sharply in 1965 to almost 30 percent above the 1964 level. The situation continues to improve this year.

Almost every American has benefited from the prosperity of the Sixties. So, too, have tens of millions of people throughout the world through our agricultural and financial assistance programs which reflect this prosperity and economic growth.

Maintaining this prosperity and preserving our unprecedented gains, while we dampen those inflationary pressures that during the past few months have adversely affected our economy, is the vital task that challenges our free society today.

To achieve our desired objective -- price stability and economic growth -- the President sent to Congress on September 8, an anti-inflation program, which incorporated the following principal, inter-related elements:

1. Measures to Reduce Federal Expenditures

   As part of his anti-inflation drive, President Johnson has directed all agency heads to hold employment in full-time permanent positions for the remainder of this fiscal year at or below the level of July 31, 1966. Those agencies whose employment now exceeds the July 31 level are to reduce their employment as expeditiously as possible.

Employment in temporary, part-time, or intermittent positions for the remainder of this fiscal year will also be held at, or reduced to, the prevailing level as of June 30 of this year.

To meet the employment ceilings established by the President, he directed Federal agencies to increase their productivity, redeploy personnel, simplify procedures, and strip work to essentials. The President also directed them to reduce total overtime pay for this fiscal year to the level contemplated in the President's budget recommendations for fiscal year 1967, or to a level 25 percent below the actual overtime pay for fiscal year 1966.

The President directed that lower priority Federal programs be reduced by $1.5 billion during the present fiscal year. This will be accomplished by deferring, stretching out, or reducing contracts, new orders, and commitments. Each major agency has been given a savings target with orders to meet that target.

The President will also defer and reduce Federal Expenditures:

-- by requesting appropriations for Federal programs at levels substantially below those now being authorized by the Congress;

-- by withholding appropriations provided above budget recommendations whenever possible; and

-- by cutting spending in other areas which have significant fiscal impact in 1967.

The total reduction in federal expenditures resulting from these measures this fiscal year will be at least -- and probably more than -- $3 billion.

This reduction in Federal spending will not be at the expense of necessary, vital programs essential to raising the quality of American life -- the education of our children, providing for their health,

rebuilding our decaying cities, and eradicating diseases that daily destroy or irreparably damage the lives of millions of Americans.

Nor will this reduction in Federal spending be at the expense of our country's efforts to preserve the peace.

Rather, this reduction in Federal spending that the President has requested will reflect our continued efforts to operate at greater levels of efficiency and reduce to a minimum non-essential programs in the pursuit of our national goals.

2. Suspension of Special Tax Incentives to Investment

The second important element in the President's anti-inflation message to the Congress deals with the suspension of the special incentives to investment, including the 7 percent tax credit on investment and accelerated depreciation procedures. The President has asked that these incentives be suspended for 16 months, beginning September 1, 1966, and ending January 1, 1968.

Why is the suspension of the 7 percent investment tax credit enacted in 1962 now necessary? The answer is that the current demandsthrust upon our machinery and equipment industries are too great to be absorbed.

This year business intends to spend 17 percent more on plant and equipment than it spent last year. This increased expenditure comes upon the top of a 15.5 percent increase in 1965, and a 14.5 increase in 1964. Investment in machinery and equipment during the past three years has risen more than twice as fast as our Gross National Product. It is taking place today, moreover, despite higher interest rates and tighter money.

This capital-goods demand falls on top of the extraordinary burden placed on the economy by the accelerated increase during the past year of the costs of our defense of freedom in Vietnam. Capital-goods demands have created such a demand for investment credit that during the past few months there has been an

unprecedented rise in interest rates that has created many inequities, such as a shortage of funds for home buyers, that can no longer be tolerated.

Consequently, the temporary suspension of this investment incentive, which will relieve excessive pressures on capital goods producers and on our financial markets, is now as necessary to the stabilization of our Nation's economic growth as its initiation once was to its stimulation and development.

Just as machinery and equipment outlays are stimulated by the investment tax credit, so outlays for construction of commercial and industrial buildings are stimulated by accelerated depreciation. Like the investment tax credit, accelerated depreciation is today contributing to inflationary pressures. Both logic and equity require its temporary suspension, along with suspension of the investment tax credit.

3. Federal Reserve Board and Large Commercial Banks

The third element of the President's anti-inflation program is concerned with abatement of pressures on interest rates and avoiding inequitable effects of very tight money. The President urged the Federal Reserve Board, in executing its policy of monetary restraint, and our large commercial banks, to cooperate with him and the Congress to lower interest rates and to ease the inequitable burden of tight money.

One aspect of the President's recommendation in this area has already been completed. Two weeks ago the Congress passed and the President signed a law which provides Federal agencies with additional flexible authority to set interest ceilings on bank time deposits and savings and loan accounts. As you know, the Federal Reserve, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board all moved promptly to regulate the fierce competition for consumer savings which has tended to push up interest rates and divert funds away from home building and buying.

As part of the President's program to help reduce current pressures on the money market and on interest rates, he directed Treasury Secretary Fowler to review all potential Federal security sales. Secretary Fowler did so promptly, and on September 10 announced a program for keeping Federal pressures on the money market at a minimum. The main points in the Secretary's program include:

-- Cancelling the sale of FNMA participation certificates tentatively scheduled for September, with no further FNMA participation sale in the market for the rest of 1966 unless market conditions improve;

-- Discontinuing Export-Import Bank sales of additional participation certificates in the market for the rest of the calendar year; and

-- Limiting market sales of Federal agency securities in the aggregate to an amount required to replace maturing issues, while raising new money only to the extent genuinely needed through sales of agency securities to Government investment accounts.

These measures clearly indicate the Administration's etermination to restrain inflationary pressures. In turn, he President hopes that the financial community will seize he earliest opportunity to lower interest rates and improve he allocation of existing supplies of credit.

The anti-inflation program laid before the Congress on eptember 8 was the latest move in a careful step-by-step rogram on the part of the Administration over the past year o combat the threat of inflation where and when it has opeared. The Administration has acted -- successfully -- to void inflationary pressures in consumer demand, as it is now cting to abate pressures in the capital goods market. Actions hich the Administration has already taken, beginning last nuary, have resulted in the removal of $10 billion of excess urchasing power from the economy. This was achieved by:

-- Increasing by $6 billion payroll taxes for social security and medicare.

-- Restoring $1 billion in excise taxes.

-- Withholding an additional $1 billion in income taxes.

-- Speeding up by $1 billion corporate tax payments.

-- Administrative acceleration of tax payments by $1 billion.

Moreover, action has been taken to redress the sharp impact of monetary restraint on home building. With the signing of the Federal National Mortgage Association Bill early last month, there was a large potential increase in the availability of money for home mortgages. In time, the $1 billion special assistance program and the expansion of FNMA secondary market purchase authority by $3.75 billion could finance 300,000 new homes.

Earlier I mentioned that the fiscal and monetary measures employed by this Administration enabled us to pursue all of our national economic goals simultaneously. One goal was to achieve equilibrium in our balance of payments deficit. Although we have had considerable success during the past five and one-half years in this pursuit, the problem still exists. Last year, our payments deficit was $1.3 billion on a liquidity basis. So far this year, it is running at about the same rate -- despite a rapid increase in the foreign exchange costs of our defense of freedom in Asia running about $1 billion more than a year earlier. We have a payment deficit on military account of $2.6 billion and on foreign aid account of three-quarters of a billion dollars. The total of these two items together is about two and one-half times our overall deficit. We intend to correct this. As Secretary Fowler said last week in his address before the annual meeting in the nation's capital of the International Monetary Fund: "We want and intend to attain balance. We do not intend in the future to meet the world reserve needs by an American deficit." How we solve our payments deficit will depend "on the composite result of our own efforts and the policies of other countries, particularly the countries in persistent surplus." But solve our problem we will.

The practicing of economic restraint and the acceptance of economic responsibility rests not alone with the Executive and Administrative branches of the Federal Government. Since we are all concerned, since we are all involved in the continued economic growth of our country and the economic well-being of our fellow Americans, we must practice restraint and assume our individual share of national economic responsibility. Our individual and

collective efforts now, as in the immediate future, should be directed to eliminating inflationary pressures on our economy that are imposing unnecessary hardships on millions of Americans and threatening the security of our economic achievements of the past six years.

The financial community, of which you form a vital part, has an extremely important role to play in accomplishing this objective. The President has asked that you seize the earliest opportunity to lower interest rates and improve the allocation of existing supplies of credit. Banks should handle money and credit equitably, without extracting excessive profits, relying less on high interest rates to price borrowers out of the market and more on the placing of appropriate credit ceilings.

American business should base demands for credit on genuine needs, maintain inventories based on current requirements, postpone unnecessary investment projects, establish prices based on real costs, and limit profits to those appropriate for a <u>steadily</u> expanding economy.

The course of action that President Johnson set down in his economic message to the Congress, which I have reviewed briefly with you, is designed to keep the American economy on the safe course of stable prosperity that it has enjoyed for the past five and one-half years. It is a flexible course, not a rigid course. Should future conditions require its implementation, then additional steps will be taken to insure the pursuit and attainment of our goal. That goal, as I have emphasized, is to maintain a strong, vigorous, balanced economy.

The maintenance of an economy that grows in good balance is imperative for the achievement of our national goals, for the successful prosecution of our efforts to bring peace to the people of Vietnam and Southeast Asia, and for continuing our assistance throughout the world to developing nations in their efforts to raise their living standards while they eradicate social ills that breed revolution and war.

The principal theme of our endeavors -- equally of interest to business, banking, labor, government, and individual citizens -- must be in the future as it has been in the past -- cooperation, good will, and mutual trust. Working together we can solve any problem, settle any dispute, resolve any difference. This will not be difficult, for working together, utilizing human resources and talents, is the American way of doing things.

oOo

TREASURY DEPARTMENT
Washington

FOR RELEASE AFTERNOON NEWSPAPERS
WEDNESDAY, OCTOBER 5, 1966 EDT

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
79TH ANNUAL MEETING OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
SHERATON-BOSTON HOTEL, BOSTON, MASSACHUSETTS
OCTOBER 5, 1966 - 9:00 A.M. EDT

ACCOUNTING CONCEPTS AND THE FEDERAL TAX SYSTEM

The years beginning in 1961, as seen by those interested in our Federal tax system, are crowded years. New legislative measures have followed hard on the heels of acts just completed, and the revenue Committees of the Congress have been operating at rates of activity well above, I am sure, "preferred rates" to borrow the industrial production term. The range of measures and provisions considered and the policies they have served have been wide and varied -- tax provisions to spur investment and economic growth, tax reductions for the same purpose, tax reform, new tax devices to aid in meeting our balance of payments problems, reduction and recasting of the excise tax structure, increasing stress on a current tax payment system and tax payment adjustments to impose fiscal restraint, and

now suspension of tax incentives to investment to moderate the capital goods and construction sectors of the economy. This scope and variety are in large part explained by the varying economic conditions of this period -- a sluggish rate of growth changed by fiscal measures to a strong and ever-lengthening expansion that now, because of the impact of Vietnam military expenditures, requires careful handling if inflationary pressures are to be kept from gaining the upper hand. Moreover, these legislative measures have been complemented by important administrative steps similarly covering a wide area -- depreciation reform, the establishment of an administrative framework for international tax matters, and consolidated returns, to mention a few.

In this vast tax kaleidoscope, one can be pardoned for not discerning all of the principal lines of development. I would therefore like to address myself today to one significant aspect that may perhaps have been obscured by the new substantive provisions that more readily command attention. This aspect is the variety and number of the tax changes that have a direct relationship to accounting concepts. Let me remind you of a few of these changes, as a means of illustrating the subject I would like to discuss.

In the international field, the substantive legislation aimed at tax havens and other practices utilized for tax purposes turn for their operative effects on the determination of the "earnings and profits of foreign corporations." Obviously, just as in the case of domestic operations, we must look to the accounting profession for the criteria needed to establish the earnings and profits -- for United States tax purposes -- of our foreign subsidiaries. It is interesting to recall that many lawyers had contended that any measure involving the earnings and profits of a foreign enterprise was doomed to failure, for how could one ascertain those earnings and profits and then relate them to our standards. This attitude, of course, complete overlooked the fact that the accounting profession had been doing just that all along for non-tax purposes in establishing consolidated financial statements covering the domestic and foreign operations of many companies. The task then became one of writing down and systematizing these accounting rules and then coordinating them with tax doctrine to establish the operative norms for Subpart F of the Internal Revenue Code.

As another illustration, again in the international area, the recently proposed Sections 482 and 861 Regulations set

forth rules for the allocation of a variety of expenses of domestic parent corporations between those corporations and their foreign subsidiaries. These expenses cover direct expenses allocable to particular sources of income, indirect expenses and general or administrative expenses. Here again the Regulations fundamentally embody accounting practices and standards evolved to achieve for non-tax reasons a proper allocation of expenses among related businesses. Thus, the rules accountants have worked out to govern the allocation of expenses where a company has both government contracts and non-government business, or where a company has both a business subject to a public regulatory body and a non-regulated business, are essentially and directly applicable to the allocations required by the substantive standard of Section 482. Indeed, efficient management often requires such allocation among the various branches or activities of an integrated business to evaluate and control its own operational performance. So viewed, Section 482 in much -- perhaps most -- of its coverage is no unique and awesome tax concept but instead only one of a number of situations where the requirements of law or management necessitate an allocation of expenses.

One further illustration -- that offered by the recent revision of our consolidated returns regulations -- may be helpful. The previous consolidated return regulations had not had an over-all review for a number of years. Moreover, the recent legislative changes in the 1964 Act made consolidated returns a more attractive tax route, so that a revision and modernization of the regulations became imperative. In large part, this revision had as its guiding principle the effort to bring consolidated reporting for tax purposes into line with the accounting practices evolved for consolidated financial statements. Thus, in providing the tax rules to govern the proper meshing and treatment of intercompany transactions and the consequences of intercompany pricing, we looked to the concepts that underlie the putting together of consolidated statements for financial purposes. We are still in the process of completing this harmonization between consolidated tax returns rules and consolidated statement accounting, as is indicated by our proposed regulations related to earnings and profits and basis adjustments for consolidated purposes and regulations currently in preparation regarding the allocation of consolidated return tax liabilities.

These are illustrations from the recent past in which the doctrines and rules carefully evolved in non-tax settings through time and experience by the accounting profession are serving us well in the tax field.

But there remain many tax areas in which we will require your further assistance, and in which we are hopeful that the impetus of the tax need will spur you to a more intensive study of the practices and rules you utilize to solve the problems in the parallel non-tax contexts. Thus, we are in need of clearer and more reliable rules to determine when the transfer of property involves a lease transaction or a sale transaction. Many tax consequences turn on the characterization -- investment credit, depreciation, capital gain or rental income -- and turn, moreover, in such a fashion that for one tax purpose it will be to the taxpayer's advantage to cling steadfastly to a sale characterization for the transaction but for another tax purpose to urge just as earnestly that a lease is obviously the only sound label to apply. Also -- I hasten to add -- the Government can just as ardently embrace one characterization only to spurn it the next time round. I am afraid that here we find the accounting dog chasing its tax tail, for the relevant Accounting Authority

Opinion No. 5, "Reporting of Leases in Financial Statements of Lessee," Journal of Accountancy, Nov. 1964, after setting forth criteria to distinguish a lease from a sale, then gives great weight to the "treatment by the lessee for tax purposes." Hence, this is a subject in which accountants and financial people, each of whom have a stake in the non-tax consequences, can, I hope, strive to provide standard which will aid in determining the proper characterization without regard to the tactical moves for tax purposes by taxpayers and Government.

Another matter is that of reserves for tax purposes. If one is seeking extreme pessimism regarding the future of our country or an industry he need look no further than certain parts of the tax field. Never do the managers of a business or the representatives of an industry become more doleful and their hand writing more anguished than when urging on the legislator or tax administrator the wisdom of a new special reserve based on future contingencies. For them, a repetition of the depression of the early 1930's is always imminent, but is perhaps the least of the dire consequences we face. This attitude of gloom is understandable when we recall that the counters of pessimism are tax dollars saved, so that each current addition to the reserve to reflect each doleful

prediction means a current tax reduction. While we may prefer to seek the company of optimists, we cannot gainsay a person's or an industry's attraction to pessimism -- I suppose "conservatism" is the accounting terminology. But we can assert that this attraction should not be at the expense of Government and those taxpayers who have more faith in the future. The task is thus one of accommodating this pessimism or conservatism where a special reserve may be required or otherwise arise, but not enabling it to gain a built-in tax advantage -- an advantage that increases in size as the particular activity grows and expands despite the continuing pessimism of its managers. The Treasury has been giving thought to this problem and is about ready to suggest an approach that appears in one area at least to achieve the needed accommodation.

As another example, I have already mentioned the support that our proposed Section 482 Regulations derive from the accounting practices and standards governing the allocation of expenses. But in one part of this field, that of intercompany price adjustments, a lesser need for non-tax rules has meant less attention and thought to the appropriate concepts and standards that should here apply. Moreover, it has allowed a certain losseness to creep into the arrangements

used by integrated companies to govern their pricing on intercompany transactions and has led to a less careful and methodical scrutiny of these arrangements by the outside accountants -- and lawyers -- for these companies. However, the need of the United States tax system, and indeed of the tax systems of each of the countries touched by the intercompany price, for more careful pricing arrangements is becoming increasingly clear and serious. We seek a fair, yet practicable, reflection of the share of the various activities involved -- manufacturing, research, selling, and the like -- where the activities spread over international boundaries and thus involve the tax claims of several countries. We hope this need will spur accountants -- and lawyers -- in their role as tax advisers to look more carefully at these intercompany pricing arrangements now that their importance is evident. For it seems inescapable that the next stage in the evolution of the relationship between international tax systems and international business will require allocation and pricing rules skillfully designed to accommodate the interests of Governments in achieving a fair allocation among countries for tax purposes of the profits of an international business and the interests of the managers in arrangements that are

practicable in their daily operation and possess the degree of certainty and stability necessary to satisfactory planning.

Let me touch briefly on one more area in this regard, that of the reserve ratio test under our depreciation guidelines. These guidelines seek to establish a realistic role for the depreciation deduction in the proper measure of net income over time, and a role, moreover, that can be kept as free as possible from day to day controversy and litigation between Government and taxpayer. The reserve ratio test is an effort to keep the guidelines linked with this purpose. We are, as you know, engaged in studies to gauge the workings of that test. But I can think of no greater or more worthy challenge to the accounting profession than the task of lending its experience and talents to the same goal, and of seeing that the United States tax system continues to possess a fair, workable and realistic system of tax depreciation.

I hope by now I have said enough to convince you of the great stress we place on the importance for tax policy and tax administration of searching out the accounting concepts and standards applicable to the related non-tax setting and then harmonizing the tax rule with those concepts and standards,

absent some overriding tax policy consideration. I would like to underscore this attitute by a brief reference to the methods we follow in the Treasury to reflect this attitude in our daily work. As you may know I and my office concern ourselves with tax policy as reflected in legislation, Treasury regulations, and major administrative rulings and other pronouncements. We have our links with many bodies and agencies of Government -- the Congress, White House Staff, Council of Economic Advisers, Bureau of the Budget and other Federal Departments, with foreign Governments and international organizations, and of course in a direct and intimate way with the Internal Revenue Service. My staff consists primarily of lawyers, economists, econometricians and revenue estimators. But we also have -- and regard as invaluable -- an Accounting Adviser -- and the history of this position is instructive. From about 1954 to 1963 the large independent accounting firms loans, in rotation, one man to the Treasury for a period of a year. This man, somewhat junior in experience, was assigned to our economic staff and worked on matters that generally had a more statistical and descriptive character. In 1964, recognizing both the necessity for expert accounting guidance and the inadequacy of the previous

arrangement, we shifted to directly employing a CPA on our staff in the same fashion that we employ our top level lawyers and economists -- we seek them directly, we seek men of ability, experience, and objective judgment; they sever their ties, and they stay with us for a period that varies with the particular individual. The CPA now serves in the Office of Tax Legislative Counsel.

The program has been very successful. We are getting innovative, experienced advice from individuals who can bring to our problems the insights of the accounting profession. In addition, we have been able to broaden the CPA's role within our staff. He no longer is restricted to being an internal adviser to those on the staff responsible for the preparation of legislation or regulations. Instead, he now directly bears a large part of that responsibility. As such, he meets regularly for discussions of all phases of taxation with legislative and governmental representatives as well as with industry representatives, members of the bar, and your profession.

But clearly one or two staff CPAs are not enough and, just as in the case of our legal and economic staffs, we rely heavily on outside consultants. Thus, in the preparation of

the major regulations and administrative rules mentioned above -- Subpart F earnings and profits, Section 482, consolidated returns, depreciation guidelines, transition rules for the reserve ratio test -- I and my staffs met many times with members of the accounting profession practising at the highest levels in their firms and with their assistants. These meetings are informal and characterized throughout by informed and objective discussion of the problems and the advantages and disadvantages of various solutions. We all understand the ground rules -- ours is the responsibility for decision and we are not seeking to shift it to the accounting profession; theirs is the responsibility of an honored profession to place its skills and experience at the service of its Government so that Government fully understands the choices available and their limitations, to the end that as wise and effective a solution as possible, accommodating all just concerns, can be achieved.

We, of course, also maintain our association with your Committee on Federal Taxation, and have been aided significantly through its direct presentation of matters of concern to the accounting profession. We also have consulting and informal arrangements with accounting professors in the

Universities. And, as a new development, we have joined with the Association of American Railroads in jointly retaining an accounting firm to undertake a study of the depreciation of railroad track and associated expenditures.

These remarks thus illustrate the importance we place on accounting concepts and experience and some of the links we have with your profession to obtain the knowledge we value so highly. All this may sound flattering to you, and indeed I intend praise, for your assistance has been of great value and we are grateful. But please do not be misled by this, for in all candor flattery is not my objective today. Rather, this genuine praise for genuine accomplishment is the prelude to the expression of a concern that I wish to discuss -- a concern that encompasses I believe both a challenge and a goal for your profession.

All I have said about the great value we place on the usefulness to tax policy of accounting standards already accepted in non-tax settings can be restated in terms of your responsibility to maintain those accounting standards untarnished and unwarped by the pull of tax pressures. If tax policies are to be based upon and harmonized with accounting concepts, then it is imperative that those concepts reflect

the genuine operational needs of business and financial accounting, and not be motivated by or tailored to sought-for income tax consequences. We know that this can be psychologically and often materially difficult when tax rates are still high. But unless you hold fast to this goal, you and your profession will become followers and not leaders.

No modern income tax system in a modern state could successfully operate under that condition. For the complex tax structures of today rely in a crucial way on the ability and willingness of your profession to provide the objectivity in the measurement of net income that is fundamental to these structures. The determination of an annual net income figure from the receipts and expenditures of countless daily transactions, complex and simple, repetitive and unique, national and international, is the essence of the income tax -- and this is your task. Objectivity in measurement does not mean blind adherence to practices of a different age or different economic or business systems. Continuous modernization of accounting practices and concepts is always a necessity. But modernization cannot be the label or the gloss to cover a yielding to a new concept whose claim to currency is the saving in current tax dollars that it produces.

Nor is it enough to keep your standards high in a non-tax setting but then urge -- or even allow -- the parallel tax rule to depart in a fundamental and serious way from the accounting standard. This too can be an abdication of your professional responsibility. For if we allow tax accounting to depart from business and financial accounting -- in an area or for an item where both are still purporting to accomplish the same task, that of the annual measurement of net business income -- then we place the tax system on shifting sands. So cast adrift, without any firm ties to accounting standards, the tax system will have few defenses against the whims, hazards and power assaults of political and lobbying pressures.

In this light one can be concerned, for example, with efforts in some quarters to eliminate from our tax system the concept of depreciation, as a factor in the accounting sense in the measurement of net income over the life of an asset, and substitute instead a cost recovery concept completely unrelated to the function of measurement. The word "depreciation" might remain, to mask the fundamental change that would thus occur, but the "tax depreciation" would no longer have a parallel in the accounting field. Each industry

would then push and clamor for a low number of years of cost recovery, and the devil of tax inequity and consequent competitive unfairness take the hindmost. And even within a particular industry, those taxpayers with more rapid replacement properties will assert the right to establish shorter lives than the industry's "cost recovery" period. Their claim would seem a proper one -- but do not the validity and grounds of their claim establish as well the propriety of matching the depreciable life with the actual replacement practice when the latter is considerably longer than the industry's norm? Or must both leader and laggard be placed in the common mold?

We should not be led to such straits by pleas for absolute certainty, nor by the desire to achieve a tax reduction through this indirect means. Rather, we should seek to follow your guiding star, the accurate reporting of annual income and, as we have done in recent years, when conditions are opportune achieve a reduction of tax burdens through a direct lowering of tax rates. We can also, through a method such as the investment credit, allow for a basic stimulus to investment that is clear-cut and calculable so that business can readily perceive and weigh the incentive offered and turn

perception into investment response.

We in the Treasury must in turn look to our rules and see where they may needlessly depart from that same guiding star. Thus, we are now examining our statutory rules respecting prepaid income and accrued expenses in a number of situations to see if they can be aligned more closely with the traditional accounting concepts in this area. I believe that if we can devise acceptable rules to govern the process of transition and avoiding in effect a doubling up, the way could be cleared to that alignment. In this regard the transitional approach used in the pending bill regarding dealers' bad debt reserves for guaranteed debt obligations discounted with financial institutions may be helpful.

Another aspect of tax rules and business accounting that offers intriguing possibilities lies in the audit disputes between the Internal Revenue Service and our major business companies. These companies have their business books audited and their tax returns prepared or reviewed by independent accounting firms of ability and integrity. These returns are then examined by Internal Revenue Service agents of ability and integrity. But in the process tax deficiencies in large amounts result and controversy ensues. I cannot fully say

that one wonders why this should be. For each -- the independent accountant and the Internal Revenue Service agent -- enters upon the task from a different door. While using common tools -- that is, accounting concepts and practices -- each will inevitably and understandably tend to underscore and use the interpretations and subtleties of these concepts and practices which reflect the difference in their starting points. Where doubt must be resolved, where one of two equally acceptable approaches must be chosen, where honest and reasonable men can differ on a technical issue, then each knows the compass which will lead to the choice. As the instances of doubt and choice increase for the return of a given taxpayer, then the end result of the differing approaches to these many choices can be a wide margin in final tax result -- with the inevitable transition from controversy to negotiation to compromise.

Maybe it has to be this way. But still I wonder why we cannot improve the situation and reduce the extent of disagreement. It may be that while controversy is inevitable under one approach to a tax issue, it can be greatly reduced if the issue is approached by a different path. Depreciation is an example -- and the replacement of the Bulletin F approach by

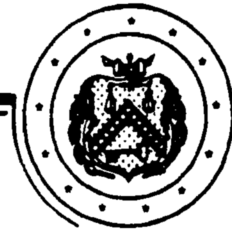
the guideline and reserve ratio approach offers real opportunities to eliminate much of the dispute over this item. I am sure there can be other examples.

Hence it may be helpful if your Tax Committee and the Internal Revenue Service drew up meaningful lists of the major areas of dispute, and then through informal but searching conferences, supplemented by careful studies, sought to evolve new approaches, standards, guidelines, or what you will to reduce these disputes. We cannot be perfectionists. Nor can we waste our energies correcting petty irritations and seeking minor correctives to legislative or administrative rules where one can live as readily with one result or the other. But we should not tolerate basically unnecessary disputes in important areas. And therefore I believe your Tax Committee and your profession could be of great help in providing a proper perspective regarding the areas where our energies could usefully be expended in the cause of reducing unproductive controversies. The suggestion above is offered as one way to that end.

Let me conclude by expressing my appreciation for your past and current assistance. Speaking as a member of a profession, that of the law, which I place high in the list of

service to our Government, let me express my confidence that your profession equally shares that high rank. And so it is that in the field of my immediate concern, the constant improvement of our tax structure, we in the Treasury know we can find in your profession a strong ally in achieving that improvement.

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 5, 1966

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing October 13, 1966, in the amount of $2,302,664,000, as follows:

91-day bills (to maturity date) to be issued October 13, 1966, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated July 14, 1966, and to mature January 12, 1967, originally issued in the amount of $1,000,993,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated October 13, 1966, and to mature April 13, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, October 10, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

F-646

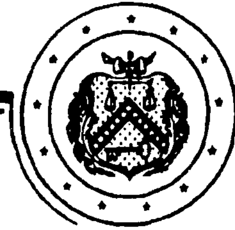
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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 October 13, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 13, 1966. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 5, 1966

FOR IMMEDIATE RELEASE

Sale of $3.5 Billion of Tax Anticipation Bills

The Treasury announced today the forthcoming auction of $3.5 billion of tax anticipation bills to meet seasonal cash needs. The sale includes $1.5 billion of tax bills maturing in April 1967 (in addition to the $1 billion of this issue already outstanding) and $2 billion of tax bills to mature in June 1967.

The bills will be sold at auction on October 11, 1966, for payment on October 18, 1966. Banks may make payment for the bills by crediting of Treasury tax and loan accounts.

The April tax bills, which mature April 21, 1967, may be used at face value in payment of taxes due April 15, 1967. The June tax bills mature June 22, 1967, and may be used at face value in payment of taxes due June 15, 1967.

F-647

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Tuesday, October 11, 1966.

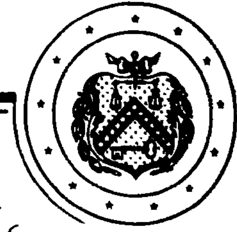
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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, non-competitive tenders for $400,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 18, 1966, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

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

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

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 5, 1966

TREASURY OFFERS $2 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 247-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be designated Tax Anticipation Series, they will be dated October 18, 1966, and they will mature June 22, 1967. They will be accepted at face value in payment of income taxes due on June 15, 1967, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of June 15, 1967, income taxes have the privilege of surrendering them to any Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than fifteen days before June 15, 1967, and receiving receipts therefor showing the face amount of the bills so surrendered. These receipts may be submitted in lieu of the bills on or before June 15, 1967, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, October 11, 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-648

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 5, 1966

TREASURY OFFERS ADDITIONAL $1-1/2 BILLION
IN APRIL TAX BILLS

The Treasury Department, by this public notice, invites tenders for $1,500,000,000, or thereabouts, of 185-day Treasury bills (to maturity date), to be issued October 18, 1966, on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be designated Tax Anticipation Series and represent an additional amount of bills dated August 26, 1966, to mature April 21, 1967, originally issued in the amount of $1,003,265,000. The additional and original bills will be freely interchangeable. They will be accepted at face value in payment of income taxes due on April 15, 1967, and to the extent they are not presented for this purpose the face amount of these bills will be payable without interest at maturity. Taxpayers desiring to apply these bills in payment of April 15, 1967, income taxes have the privilege of surrendering them to any Federal Reserve Bank or Branch or to the Office of the Treasurer of the United States, Washington, not more than fifteen days before April 15, 1967, and receiving receipts therefor showing the face amount of the bills so surrendered. These receipts may be submitted in lieu of the bills on or before April 15, 1967, to the District Director of Internal Revenue for the District in which such taxes are payable. The bills will be issued in bearer form only, and in denominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, October 11, 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.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any bills of this additional issue at a specific rate or price, until after one-thirty p.m., Eastern Daylight Saving time, Tuesday, October 11, 1966.

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, non-competitive tenders for $300,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Payment of accepted tenders at the prices offered must be made or completed at the Federal Reserve Bank in cash or other immediately available funds on October 18, 1966, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for Treasury bills allotted to it for itself and its customers up to any amount for which it shall be qualified in excess of existing deposits when so notified by the Federal Reserve Bank of its District.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed on the principal or interest thereof by any State, or any of the possessions of the United States, or by any local taxing authority. For purpose 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.

F-649

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE
THE THIRD ANNUAL CORPORATE PENSION CONFERENCE
THE UNIVERSITY CLUB, NEW YORK, NEW YORK
THURSDAY, OCTOBER 6, 1966, AT 12:00 NOON, EDT

FINANCIAL MANAGEMENT OF FEDERAL CREDIT PROGRAMS IN THE GREAT SOCIETY

As pension officers you have a lively interest in the way the Federal Government manages its financial activities. You represent the fastest-growing group of major financial institutions in the nation. You are fully aware of the impact of the Federal Government's activities on the broad financial market of the United States. Your funds are invested in that market, and you will return to the market again and again to seek future investment opportunities.

Narrowing our focus on your interest somewhat, the security, convenience, and steady earning power of United States Treasury securities surely hold a substantial part of your attention in the market. And if you do not hold obligations issued or guaranteed by government lending agencies, you will have at least considered them. So a discussion centering on Federal credit programs can be neither strange nor uninteresting ground for you.

We in the Treasury, of course, also have a keen interest in all the government's financial activities, although we observe from a different point of view. We have the responsibility of maintaining the quality of the government-backed obligations you hold and those you have yet to buy. That responsibility exists within the context of our broader obligation to maintain and enhance the well-being of all Americans.

F-650

To see Federal credit programs in proper perspective, we should look briefly at the purposes for which they were created before we consider the problems of their financial management. Since the modest beginnings with the Farm Credit Program in the first World War era, Federal credit programs have grown tremendously. More important, their scope has broadened vastly, reflecting an expansion in our scale of priorities from the farm sector of the economy and our society to include many other sectors and fields of activity.

Federal credit aids now help to achieve the objectives of government programs in six major areas. Varying among direct loans, loan insurance, and loan guarantees, they are:

-- improvement of private housing and encouragement of home ownership;

-- development of agricultural and other natural resources;

-- promotion of economic development abroad;

-- assistance to business, including small business generally, transportation, and commercial fisheries;

-- encouragement of community development and public housing; and

-- improvement of education, including college facilities and student loans.

Apart from programs generated to provide temporary assistance after a natural catastrophe or other emergency, continuing Federal credit programs have been established to meet two kinds of situations. In the first of these, government has intervened to remedy what are -- or appear to be -- imperfections in the functioning of the private credit system. For whatever reason, potential borrowers are unable to command adequate credit even though they are able to pay a competitive price for it. So-called "credit gaps" occur, and programs are designed to close them -- to achieve more nearly the credit allocation that might be expected to result if the market operated more perfectly.

In the second kind of situation, the government seeks to achieve social, economic, or other policy objectives which would not otherwise be attained even if the market functioned perfectly. The government intervenes to divert resources to particular activities from which public and private benefits are believed to flow in a degree justifying the costs involved.

It is often hard to tell whether it is imperfection in the market or the desire to achieve specific objectives which led to developing and sustaining a particular credit program. Farm credit has been justified both in terms of food production and of the social significance of life on the family farm. Do we lend money for education more because of the unquestioned value of education or because many educational institutions and their students cannot afford to compete for credit?

Our nation has come a long way since the inauguration of the first Federal credit program. Much of this nation's progress over the years has been due, directly or indirectly, to timely extension of credit to men and women who otherwise would not have been eligible for it or could not have afforded it. I might stress the element of timeliness here. There are some who would argue that the market would, in time, provide financing for any worthwhile purpose.

It matters little to a man who needs credit for his farm or business or financing to provide a home for his family, or to youth who need a school to go to, or to the sick who need a hospital, that funds will be available "sometime." A central part of the magnificent achievement of our credit programs is that they have provided funds when the funds were needed.

The funds which these programs have put into the hands of the public for purposes recognized and written into law by the Congress add to impressive totals. The budget which the President sent to the Congress last January estimated that direct loans <u>outstanding</u> would total $33.1 billion at the close of the government's fiscal year 1966. Guaranteed and insured loans <u>outstanding</u> were estimated at $98.5 billion. Final figures for the year are not yet available.

The President's budget for fiscal 1967 -- the current year -- called for almost $8 billion in new commitments in direct loans. Half the total was budgeted for loans to foreign borrowers by the Export-Import Bank and the Agency for International Development -- an essential part of our economic and trade development effort abroad. The remainder was to be divided among 18 other major credit programs. New commitments for guarantees and insurance of private loans were forecast at almost $28.4 billion Over half that total was for housing loans insured by the Federal Housing Administration, now part of the Department of Housing and Urban Development.

Those are substantial figures. But it is well to keep the situation in perspective, particularly as it respects demands on our money markets. The tremendous growth of our economy during the last five and one-half years, our savings potential, and the rising credit demands of other sectors, coupled with reductions in Federal deficits and a decline in the Treasury financing placed in the private market, have resulted in a shrinking in the demands of government finance, relative to other demands. Large as it is in absolute terms, Federal financing is a small proportion of our financial markets.

But consider the size of the government's portfolio of direct loans under the various credit programs: more than $33 billion of the taxpayers' money -- taken from their current accounts over the years -- immobilized in loans of various maturities, often long-term. The total has been growing rapidly, too -- it was just over $25 billion five years ago.

Federal credit programs have been designed to accomplish things the private market could not or would not accomplish. Our lending activities have always been supplemental to the private market, never aimed at taking its place.

Over the years successive Administrations have devised means to use the great resources of the private market to accomplish the necessary and highly desirable social purposes which we originally set out to accomplish through direct government lending. When private capital takes up part or all of the burden of a lending program, the resources of the

public sector are freed to turn to other worthwhile purposes. This is advantageous for several reasons:

-- the capital resources of the private market are far greater than those of the government;

-- we could not increase the Federal budget and, indeed, few if any of us would want to increase the Federal budget to the degree required to provide all the necessary funds through direct government loans; and,

-- while government assistance is required to get programs underway, we often need the flexibility and ingenuity of the private market to carry them out successfully.

The public gains another advantage, too. Federal credit programs, working through the private market, help to make the market stronger, more competitive, and better able to serve the economy's needs over the long-term.

The most striking long-term effect of the mobilization of private financing for Federal credit programs can be seen in the growth of guaranteed and insured loans. Today, three dollars of every four lent under our programs are private funds lent under government guarantee or insurance.

The substitution of private for public credit has received great impetus since the mid-1950s under the asset sales program. This has consisted of selling loans -- selling the loan paper, actually, which is generated under various direct Federal lending programs.

The idea of asset sales was endorsed by the distinguished private Commission on Money and Credit, of which Secretary of the Treasury Fowler was a member and which issued its authoritative report in 1961, and President Kennedy's Committee on Federal Credit Programs, of which former Secretary of the Treasury Dillon was chairman. The program was also given high priority repeatedly in President Eisenhower's budgets.

But despite major efforts to draw on private credit, the portfolio of direct Federal loans outstanding has increased in recent years. This has had direct consequences on the Federal budget. Money for direct lending programs must be budgeted. This means that it must be raised from tax revenue or additional public debt -- or else that it must take the place of some other program, which then must be

postponed or dropped. The money appropriated to a direct lending program is tied up, regardless whether private funds have meanwhile become available which could take its place.

These conditions led originally to the program of direct sales of Federally held assets, which had the objective of reducing the portfolio of direct loans held by the Government. But problems developed with the direct asset sales program.

This program, in effect, sent Federal lending agencies into the private market to raise money. We have had at various times half a dozen or so agencies selling their loan paper, some of it with appeal to a very limited market. Further, the agencies went about this task with varying degrees of expertise.

From the Treasury's standpoint, the main problem presented by the myriad Federal agency credit programs has been one of coordination. This is not to say that there has been any lack of genuine cooperation. The various agencies are all concerned with doing the best job possible, and there is a spirit of give and take among the agencies and with the Treasury and its debt management problems. Moreover, with respect to any specific financing, the Treasury must, by law, be consulted in most cases, while, in other cases, we have been in close touch as a matter of practice.

Rather, the coordination problem has reflected the multiplicity of agencies dealing directly with the market, each with its own scheduling problems and each with fairly specific financing objectives or requirements, all of which have had to be fitted within an over-all schedule. Obviously, this has required detailed planning, careful consideration of alternatives, and hard appraisals of amounts, msturities, and pricing.

All the agencies have had some degree of flexibility in their financial operations, but there have also been constraints imposed by law, market acceptability, or considerations of prudent financial management. Patterns of cash flow posed constraints, too. Certainly, long-term borrowing was more appropriate for some agencies, particularly where it was fairly clear that a portion of the agency's need was of a truly long-term nature. At the

same time, we at the Treasury knew that long-term agency borrowing could compete directly with opportunities for the Treasury itself to tap the intermediate or longer-term markets.

The best technique we had at hand to cope with those problems consisted of grouping assets, consisting of loans, into pools and selling shares or "participations" in the pools. The Export-Import Bank had been using the technique since 1962 and had sold about $1.7 billion of its direct loans which otherwise might not have been marketable. The Federal National Mortgage Association -- Fannie May, as we all call it -- acting under the provisions of the Housing Acts of 1964 and 1965, sold $1.6 billion of participation certificates in its own mortgage holdings and those of the Veterans Administration.

Last January President Johnson proposed a bold step forward in mobilizing the resources of the private market to accomplish the purposes of the Federal lending programs. His proposal became the Participation Sales Act of 1966. Its basic provisions came directly from the Housing Acts of 1964 and 1965. The earlier act authorized Fannie May to act as trustee for the sale of participations in pools of first mortgages. The 1965 act extended that authority.

The Participation Sales Act enlarged the use of the pooling technique by extending it to certain other Federal agencies which hold financial assets. Further, it capitalized on the experience and expertise of Fannie May by giving responsibility for managing and coordinating the pooling and sales of assets to that agency, serving as trustee for the other agencies.

In authorizing the creation of participation certificates for sale in the market, the Act brought into being a security which cannot fail as its use develops to command a broad market at yields close in line with Treasury securities. Finally, the Act provided for Congressional review of the pooling of assets, so that the Congress retains its traditional influence and control over the scope and administration of the lending programs.

The Act extended the use of the participation sales technique to include assets of the Farmers Home Administration, the Office of Education's Academic Facilities Loan Program, the College Housing Loan Program and the Public Facilities Loan Program of the Department of Housing and Urban Development, and the Small Business Administration. Under this legislation, we proposed this year to reverse the upward trend in the total of direct Federal loans outstanding.

Since then, of course, our attention has been drawn away from the size of the direct loan portfolio and the problems of asset sales coordination to the escalation of interest rates and a more general inflationary threat.

The President, speaking to the nation in his Message to the Congress on September 8, outlined his program to avert inflation. He said, and I quote:

> "No nation has ever enjoyed such prosperity...
>
> "The new problems of prosperity are much to be preferred to the old problems of recession and depression.

But, he continued:

> "...the great satisfaction that accompanies the solution of old problems must be tempered by full recognition of the new problems these solutions bring."

As you know, the President asked the Congress to suspend two tax incentives, the 7 percent investment credit and accelerated depreciation, for 16 months to reduce pressures in certain sectors of the economy. I am pleased that the House of Representatives has already passed a bill embodying those requests of the President, and the bill is before the Senate Finance Committee this week.

Citing tight money conditions and high interest rates that impose a special hardship on homebuyers and small businessmen, President Johnson announced in his message that he had asked Secretary Fowler to review all potential Federal security sales and to keep them at the minimum. Mr. Fowler announced two days later that there would be no further sale of participations during this calendar year,

unless the market returned to more normal conditions. Federal agency offerings to the market, he said, will be limited to amounts necessary to refinance maturing issues. It is planned to raise any needed additional funds through sale of agency securities to various government trust fund accounts.

These necessary measures, adopted to protect the unprecedented and hard-won economic gains of the last five and one-half years, have unfortunately obscured temporarily the great significance of the Participation Sales Act.

It is really a tremendous break-through in the financial management of our credit programs.

I have described in some detail our concern over a market entered by individual agencies in search of buyers for their assets. This problem, of course, is now vastly reduced in scale.

There is another area, of equal importance, where the effect of this milestone legislation will be felt in future years. This is in our budget treatment of lending programs.

A government loan -- to an individual, or a business, or an institution -- is a liability, an obligation to pay, on the part of the borrower. It is an asset for the government. The borrower is obligated to pay back every cent he borrows from the government, plus interest. Yet money lent under our Federal credit programs is treated as an expenditure. We say the Administration has "spent" the money.

Consequently, we generally call the repayment of a loan a net reduction in expenditure -- a "negative expenditure." We could just as well call it "revenue." The <u>net</u> impact on the budget is the same whether we call a loan repayment a receipt or a negative expenditure.

The pooling of loans and the sale of participations, when these techniques are in full use after the current inflationary threat passes, cannot fail to underscore the differences among Federal funds spent, say, for an Army rifle, which is expendable and has a strong tendency toward obsolescence; funds spent for a national park, which will

be an asset to be enjoyed by our grandchildren; and funds lent to credit-worthy borrowers who will pay back every cent, with interest. This will have an important effect on the budgeting process.

Competition for the available Federal budget dollar is keen -- particularly when the whole range of great unsatisfied needs of our society is considered. The Great Society means, in part, meeting the greatest of those needs.

It is only necessary to name a few areas -- health and education, poverty, the re-building of blighted urban areas, water pollution, air pollution, transportation -- to see that future national needs will create great future demands for capital.

We gain some perspective in the area of future capital needs from the recent National Planning Association study, Goals, Priorities and Dollars, a study of the cost of achieving our national goals for 1975. The study estimates that, by 1975, our annual expenditure level for urban development should reach nearly $130 billion, in 1962 prices.

In transportation, the study concludes our 1975 expenditure level should be almost $75 billion, and in housing, $62 billion. All these are double the actual 1962 expenditures.

The study further estimates that, in 1975, annual investment in private plant and equipment, should reach almost $152 billion -- triple the actual 1962 level. Gross private domestic investment as a sector of hypothetical Gross National Product in 1975 is projected at $205 billion, more than two and one-half times the actual 1962 level.

Another National Planning Association study estimated the cost of transforming the nation's metropolitan centers into what the study considered to be "viable" communities over a period of 20 years. Their estimate was $2.1 trillion, in both public and private expenditures. These figures give us some idea of the order of magnitude of the need for capital which we will face in less than a decade.

The Participation Sales Act did not authorize any new programs or any additional loan funds for existing programs. But its passage was of vital importance in assuring local communities, educational institutions, and individuals

that loan programs authorized by the Congress would be adequately funded. Further, it provides assurance to many others -- individuals, communities, and institutions -- that future programs to alleviate their most severe problems will be financially feasible.

Things in government seldom remain fixed and static for long. We took a long step forward with the Participation Sales Act. But I would not be surprised if, in a matter of a few years, that step led to still more comprehensive progress in the future financing of Federal lending programs.

Perhaps the next step might be the establishment of a new central Federal lending corporation which would obtain funds for programs economically and efficiently by issuing its own obligations in the private market. Such obligations would have to be backed in some fashion by the Treasury and subject to the Secretary's approval. Conceivably, such a government lending corporation could be justified in terms of real savings, still greater coordination of agency financing, and more effective and equitable allocation of credit resources.

Such a step may be regarded in the future as the logical extension of progress we have already made. Perhaps it is to such a Federal credit corporation that we should look for the kind of stability and continuity in program financing which is essential both to orderly and economic planning at the local and individual scale and overall financial program planning on a national scale.

oOo

TREASURY DEPARTMENT
Washington

RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF THE TREASURY
NATIONAL INDUSTRIAL CONFERENCE BOARD -- "BUSINESS IN 1967"
WALDORF ASTORIA, OCTOBER 6, 1966
9:30 A.M.

ROLE AND POLICIES OF THE FEDERAL GOVERNMENT IN 1967

INTRODUCTION

IT IS, OF COURSE, AN HONOR TO PARTICIPATE IN THIS SESSION OF THE NATIONAL INDUSTRIAL CONFERENCE BOARD. THE DISCUSSIONS WHICH HAVE EMANATED FROM THESE SESSIONS IN RECENT YEARS HAVE HAD A TREMENDOUS IMPACT ON FEDERAL ECONOMIC POLICIES. BRINGING TOGETHER A BROAD SPECTRUM OF ECONOMISTS AND GOVERNMENT OFFICIALS WITH PRIVATE CITIZENS WHOSE INDIVIDUAL DECISIONS CAN INFLUENCE THE ECONOMIC WELFARE OF MILLIONS CONTINUES TO SERVE A VITAL FUNCTION IN OUR UNIQUE DEMOCRATIC PROCESS. THE SESSIONS SERVE AS A BROADENING FORCE ON ALL PARTICIPANTS, ENABLING EACH TO GAIN A BETTER UNDERSTANDING OF THE VIEWS OF OTHERS. THIS FRANK EXCHANGE OF OPINIONS AMONG THOSE WHO HOLD KEY DECISION-MAKING POSITIONS IN BOTH GOVERNMENT AND THE PRIVATE ECONOMY IS ESSENTIAL TO FORMING THE BROAD NATIONAL CONSENSUS THAT LEADS TO THE KIND OF ECONOMIC POLICIES WHICH HAVE KEPT THE AMERICAN ECONOMY MOVING FORWARD ON A SOUND BASIS.

IN MY OWN REMARKS, I HOPE I WILL NEITHER UNDERPLAY NOR OVERPLAY THE IMPORTANCE OF THE "ROLE AND POLICIES OF THE FEDERAL GOVERNMENT IN 1967" IN SHAPING THE PATTERN OF OUR ECONOMY IN THE YEARS AHEAD. AS A FEDERAL OFFICIAL, IT IS NATURAL FOR ME TO EMPHASIZE THE VIEW FROM WASHINGTON, BUT ONLY BECAUSE I AM MORE FAMILIAR WITH IT THAN WITH OTHERS. I WOULD NOT, FOR A MINUTE, PRETEND THAT THE FEDERAL GOVERNMENT CAN MOLD THE NATIONAL ECONOMY TO ITS

DESIRES, EVEN IF THIS WERE POLITICALLY POSSIBLE, WHICH IT IS NOT. I THINK WE WOULD ALL AGREE, HOWEVER, THAT IT IS THE DUTY OF THE FEDERAL GOVERNMENT UNDER THE TERMS OF THE EMPLOYMENT ACT OF 1946 TO PROVIDE AN ENVIRONMENT FAVORABLE TO STRONG AND STABLE GROWTH. GOOD POLICIES BASED ON UP-TO-DATE KNOWLEDGE OF ECONOMIC BEHAVIOR CAN HELP. CERTAINLY BAD POLICIES, WHICH TOO OFTEN RESULT FROM CLINGING TO OUTMODED DOGMAS AS A SUBSTITUTE FOR ECONOMIC ANALYSIS CAN CAUSE IRREPARABLE DAMAGE.

THE ENACTMENT OF THE EMPLOYMENT ACT IN 1946 WAS CERTAINLY A MILESTONE IN OUR COUNTRY'S POLITICAL AND ECONOMIC DEVELOPMENT, BUT WE HAVE LEARNED A GREAT DEAL MORE IN THE INTERVENING 20 YEARS. IT IS EASY NOW TO CRITICIZE THE ECONOMIC STAGNATION OF THE 1950'S, A PERIOD WHICH INCLUDED THREE RECESSIONS, SLUGGISH GROWTH AND, PARADOXICALLY, THE WORST PEACETIME INFLATION YEARS IN RECEN HISTORY. THE FACT IS, HOWEVER, THAT MANY OF THE ECONOMIC TOOLS WE HAVE RECENTLY EMPLOYED WITH CONSIDERABLE SUCCESS WERE, AS LATE AS THE 1950'S, ONLY THEORIES FAMILIAR MAINLY TO ACADEMICIANS AND WERE NOT ADEQUATELY DEVELOPED FOR PRACTICAL USE IN THE POLICY-MAKING PROCESS UNTIL THE EARLY 1960'S. EVEN THESE ARE STILL BEING IMPROVED UPON.

CONSIDER THE USE OF THEORETICAL ECONOMIC MODELS WHICH WERE JUST BEING DEVELOPED IN THE FIFTIES. TO THE AVERAGE PERSON ON MAIN STREET, U.S.A., THIS MAY HAVE SEEMED LIKE A MEANINGLESS ACADEMIC PARLOR GAME. BUT, THESE MODELS ADDED A NEW DIMENSION TO ECONOMIC ANALYSIS, AND EVEN BEFORE THE VIET NAM ESCALA

MADE POSSIBLE POLICIES FAVORABLE TO 4-1/2 YEARS OF UNINTERRUPTED PEACETIME ECONOMIC EXPANSION -- THE LONGEST AND STRONGEST IN HISTORY -- WITH THE MOST STABLE PRICES OF ANY INDUSTRIALIZED NATION IN THE WORLD. THE FULL EMPLOYMENT MODELS GAVE US A NEW UNDERSTANDING OF WHY THE ECONOMY COULD NEVER QUITE MAKE IT TO FULL EMPLOYMENT BEFORE BEING TUMBLED INTO A NEW RECESSION. AND, IT SHOWED US THAT DEALING WITH THE BUSINESS CYCLE INVOLVED MUCH MORE THAN SIMPLY FOLLOWING THE CONVENTIONAL APPROACH TO COMPENSATORY MONETARY AND FISCAL POLICIES WHICH IN PRACTICE MEANT MAINLY RELIANCE ON THE SO-CALLED AUTOMATIC STABILIZERS.

THE EARLY 1960'S

THE FULL EMPLOYMENT MODEL WAS PROBABLY THE MOST INFLUENTIAL THEORETICAL FACTOR IN SHAPING FEDERAL ECONOMIC POLICIES DURING THE EARLY 1960'S. INCORPORATING ESTIMATES OF WHAT WOULD BE TOTAL NATIONAL PRODUCTION, GOVERNMENT SPENDING AND REVENUES UNDER CONDITIONS OF FULL EMPLOYMENT (SOMEWHAT ARBITRARILY DEFINED AS 4% UNEMPLOYMENT) SUCH A MODEL DEVELOPED IN 1961 BY THE JOINT ECONOMIC COMMITTEE OF CONGRESS INDICATED THAT THE THEN CURRENT FEDERAL TAX STRUCTURE WOULD YIELD A NATIONAL INCOME ACCOUNTS BUDGET SURPLUS OF SOME $18 BILLION. THIS MEANT THAT AS INCOMES ROSE THE INCREMENTAL ADDITIONS WOULD BE TAXED AT THE HIGHER MARGINAL RATES OF INCOME TAXATION WITH THE RESULT THAT A GREATER AND GREATER SHARE OF RISING INCOME WOULD GO INTO TAX COLLECTIONS. THE ECONOMY COULD THUS NEVER REACH FULL EMPLOYMENT BECAUSE AS IT MOVED IN THAT DIRECTION THE FEDERAL TAX SYSTEM

WOULD EXERT A STRONGER AND STRONGER DEFLATIONARY EFFECT. ONLY A GIGANTIC INCREASE IN PRIVATE BORROWING COULD OFFSET THIS EFFECT.

IN 1961 AND 1962, RISING DEFENSE REQUIREMENTS AND INCREASING EXPENDITURES FOR LONG OVERDUE NATIONAL NEEDS, ALONG WITH EASY CREDIT, CONFORMED TO THE THEORY OF COMPENSATORY ECONOMIC POLICIES. NEVERTHELESS, UNEMPLOYMENT WAS EXTREMELY STICKY AND A NUMBER OF THE ECONOMIC INDICATORS LED MANY OBSERVERS TO PREDICT A RECESSION. A "QUICKIE" TAX CUT WAS RECOMMENDED BY SOME. THIS VIEW, HOWEVER, WAS REJECTED ON THE GROUNDS THAT WHAT WE REALLY NEEDED WAS A RESTRUCTURING OF THE TAX SYSTEM IN ORDER TO CORRECT THE BASIC FLAW REVEALED BY FULL EMPLOYMENT MODELS. THIS INVOLVED MORE THAN MERELY USING TEMPORARY TAX CHANGES AS A COMPENSATORY DEVICE. ALTHOUGH ANY TAX CUT WOULD OBVIOUSLY HAVE EXERTED A TEMPORARY EXPANSIONARY EFFECT, WE WANTED TO GET AT THE ROOT PROBLEM OF THE FULL EMPLOYMENT SURPLUS AND, IN ADDITION, PRODUCE A TAX SYSTEM CONDUCIVE TO RISING INVESTMENT AS WELL AS RISING AGGREGATE DEMAND. SUCH A PROGRAM WAS RECOMMENDED IN 1963 AND ENACTED INTO LAW IN 1964. IT WAS FOLLOWED, IN 1965, BY THE ELIMINATION OF A MULTITUDE OF EXCISE TAXES WHICH HAD CLUNG TO THE SYSTEM SINCE THE KOREAN WAR.

THAT THESE POLICIES WERE SUCCESSFUL IS, I THINK, SELF-EVIDENT FROM THE RESULTS EVEN BEFORE THE STEP-UP IN VIET NAM ACTIVITIES LAST YEAR. BETWEEN JANUARY 1961, WHEN THE EXPANSION BEGAN, AND JULY 1965, WHEN THE VIET NAM ESCALATION WAS ANNOUNCED, GROSS NATIONAL PRODUCT JUMPED 32%, CORPORATE PROFITS ROSE 64%, AND UNEMPLOYMENT SHRANK TO 4-1/2%, THE LOWEST IT HAD BEEN FOR EIGHT YEARS. DESPITE THIS TREMENDOUS EXPANSION, PRICES REMAINED STABLE. INCREASED INVESTMENT LED TO INCREASED PRODUCTIVITY SO THAT UNIT LABOR COSTS ACTUALLY DECLINED EVEN WITH A RISE IN LABOR INCOME. THE FEDERAL BUDGET DEFICIT DECLINED TO $3-1/2 BILLION IN 1965 AND THE BALANCE OF PAYMENTS DEFICIT DROPPED FROM NEARLY $4 BILLION IN 1960 TO LESS THAN $1-1/2 BILLION IN 1965.

THE DIALOGUES STIMULATED BY THE NATIONAL INDUSTRIAL CONFERENCE BOARD DESERVE GREAT CREDIT FOR THESE IMPROVEMENTS.

IMPACT OF VIET NAM ESCALATION

TODAY, NICB SESSIONS CAN CONTRIBUTE TO THE SOLUTION OF A VASTLY DIFFERENT SET OF ECONOMIC PROBLEMS. I WAS INTERESTED IN READING THE PAMPHLET FURNISHED FOR THIS PARTICULAR SESSION. AFTER CITING THE ACCOMPLISHMENTS OF THE 1960'S, IT STATES THAT "WHILE THIS EXPERIENCE IS REASSURING, AND THE BASIC VITALITY OF THE ECONOMY HAS BEEN WELL ESTABLISHED, THERE IS SOME EVIDENCE THAT THIS LONG EXPANSION MAY FINALLY RUN INTO A LOSS OF ENERGY." IT THEN ASKS IF THOSE SECTORS WHICH HAVE BEEN CONTRIBUTING TO ECONOMIC STRENGTH IN 1966 CAN BE REPEATED IN 1967 AND IF NOT, WHAT OTHER STRENGTHS WILL MATERIALIZE? ODDLY ENOUGH, THE EXTRA DEMANDS OF VIET NAM WERE NOT MENTIONED, BUT I THINK WE WOULD ALL OBVIOUSLY AGREE THAT THEY MUST BE TAKEN INTO ACCOUNT. IN FACT, I CONSIDER RISING DEFENSE NEEDS A FACTOR WHICH SHOULD CONCERN US EVEN MORE THAN THOSE LISTED IN THE PAMPHLET -- AT LEAST IN THE IMMEDIATE FUTURE.

ACTUALLY, OF COURSE, WE MUST BE CONCERNED WITH TWO POSSIBILITIES -- THAT THE ECONOMY MIGHT RUN OUT OF STEAM OR THAT IT MIGHT GENERATE TOO MUCH STEAM. THAT IS WHY WE NEED THE UTMOST FLEXIBILITY IN OUR ECONOMIC PROGRAMS AND BE READY AT ALL TIMES TO MOVE QUICKLY IN THE APPROPRIATE DIRECTION. WE DON'T WANT TO BE CAUGHT ZIGGING WHEN WE SHOULD BE ZAGGING. RIGHT NOW I THINK OUR POLICIES MUST BE GEARED TO COMBAT INFLATION. BUT WE MUST ADJUST POLICY WITH CARE OR WE COULD MAKE A 1967 SLOWDOWN TURN INTO A REALISTIC POSSIBILITY.

IT WAS IN THIS SPIRIT THAT THE PRESIDENT'S BUDGET, PRESENTED LAST JANUARY, INCLUDED PROPOSALS TO SLOW DOWN BUT NOT CHOKE OFF INCREASES IN PURCHASING POWER -- MODERATE RESTRAINT IN CIVILIAN EXPENDITURES AND TAX ADJUSTMENT MEASURES. HIS TAX PLAN RECOMMENDED RAISING REVENUES BY SPEEDING

UP TAX COLLECTIONS AND POSTPONING SCHEDULED REDUCTIONS IN EXCISE TAXES ON AUTOMOBILES AND TELEPHONE SERVICES. HE DID NOT PROPOSE ANY CHANGES IN INDIVIDUAL OR CORPORATE INCOME TAX RATES OR A RESTORATION OF THOSE EXCISE TAXES WHICH WERE ELIMINATED IN 1965.

BETWEEN JANUARY 1 AND SEPTEMBER 1 OF THIS YEAR, IN ORDER TO DAMPEN INFLATIONARY PRESSURES THE PRESIDENT AND CONGRESS TOOK ACTIONS WHICH ELIMINATED $10 BILLION OF EXCESS PURCHASING POWER FROM THE ECONOMY -- THROUGH HIGHER SOCIAL SECURITY TAXES, THE TAX ADJUSTMENT PROGRAM, AND THE ACCELERATION OF LARGE EMPLOYERS' PAYMENTS OF EMPLOYEES' SOCIAL SECURITY AND INCOME TAXES WITHHELD. I THINK THERE CAN BE NO QUESTION BUT THAT THESE FISCAL POLICIES, COMBINED WITH THE CREDIT RESTRAINT OF THE FEDERAL RESERVE BOARD, HAVE KEPT PRICE RISES BELOW WHAT THEY WOULD OTHERWISE HAVE BEEN. NEVERTHELESS, PRICE MOVEMENTS IN RECENT MONTHS HAVE CLEARLY INDICATED THE NEED FOR ADDITIONAL MEASURES.

THE PRESIDENT STATED IN HIS BUDGET MESSAGE LAST JANUARY THAT IF ADDITIONAL EFFORTS WERE TO BECOME NECESSARY HE WOULD "PROPOSE SUCH FISCAL ACTIONS AS ARE NEEDED TO MAINTAIN PRICE STABILITY." ADDITIONAL ACTION HAS BECOME NECESSARY AND ON SEPTEMBER 8, THE PRESIDENT ANNOUNCED A NEW ANTI-INFLATIONARY PROGRAM WHICH CALLS FOR A $3 BILLION CUTBACK IN CIVILIAN EXPENDITURES TO REDUCE THE GOVERNMENT'S DEMANDS ON THE ECONOMY AND A TEMPORARY SUSPENSION OF THE INVESTMENT CREDIT IN ORDER TO DIVERT FUNDS FROM THE SWOLLEN STREAM OF CAPITAL OUTLAYS. IN ADDITION, WE ARE WORKING ON A NEW TYPE OF FEDERAL SAVINGS CERTIFICATE DESIGNED TO ENCOURAGE SAVING.

THE PRESIDENT HAS ALSO CALLED FOR RESPONSIBLE BEHAVIOR AMONG NON-GOVERNMENT GROUPS. HE HAS ASKED BANKS TO HANDLE LOANS EQUITABLY AND WITH RESTRAINT. HE HAS ASKED BUSINESS TO RESTRAIN THEIR USE OF CREDIT, KEEP INVENTORIES AT REASONABLE LEVELS, POSTPONE INVESTMENTS, SET PRICES ON THE BASIS OF REAL COSTS AND LIMIT PROFITS TO JUSTIFIABLE LEVELS. AND HE HAS ASKED LABOR TO AVOID WAGE DEMANDS THAT WOULD RAISE PRICES, TO LIBERALIZE RESTRICTIONS ON NEW ENTRANTS INTO ITS TRADES AND TO COOPERATE WITH MANAGEMENT TO RAISE PRODUCTIVITY.

PROGRAMS TO ALLEVIATE THE PLIGHT OF THOSE GROUPS HARD-HIT BY CREDIT SHORTAGES ARE ALSO UNDERWAY; A NEW LAW TO PERMIT AN ADDITIONAL $4.7 BILLION TO SUPPLEMENT FUNDS FOR HOME MORTGAGES; ANOTHER LAW TO SOFTEN THE FIERCE COMPETITION FOR SAVINGS AMONG FINANCIAL INSTITUTIONS AND A CUTBACK IN THE SALES OF PARTICIPATIONS IN GOVERNMENT-HELD LOANS AND FEDERAL AGENCY OFFERINGS.

IN TRYING TO MOVE THE SHIP OF STATE SAFELY AHEAD WITHOUT CRASHING INTO THE SCYLLA OF A RECESSION OR THE CHARYBDIS OF INFLATION, THESE POLICIES I THINK ARE APPROPRIATE TO THE CURRENT SITUATION. THEY FALL SOMEWHERE IN BETWEEN THE ADVICE OF THOSE URGING STRONGER ANTI-INFLATIONARY PROGRAMS SUCH AS TAX RATE INCREASES OR EVEN SUCH EXTREME MEASURES AS WAGE AND PRICE CONTROLS ON THE ONE HAND AND THOSE WHO FEEL THAT OUR POLICIES DO NOT REPRESENT ENOUGH OF A HEDGE AGAINST THE POSSIBILITY OF A RECESSION ON THE OTHER HAND. THE FACT IS, HOWEVER, THAT THE BALANCE BETWEEN SUFFICIENT DEMAND AND EXCESS DEMAND IS MUCH TOO DELICATE AT THIS POINT TO TAKE CHANCES WITH HEAVY-HANDED POLICIES, ONE WAY OR THE OTHER.

IT WILL BE NECESSARY, THEREFORE, TO KEEP A CONSTANT SURVEILLANCE OVER ALL ECONOMIC DEVELOPMENTS DURING THE NEXT THREE MONTHS. DURING THAT TIME

WE SHALL BE DEVELOPING THE NEW FEDERAL BUDGET RECOMMENDATIONS WHICH MUST TAKE ALL OF THE LATEST DEVELOPMENTS INTO ACCOUNT.

DECIDING ECONOMIC POLICIES

OUR FLEXIBLE APPROACH TO ECONOMIC POLICIES WHICH WE HAVE FOLLOWED DURING THE CURRENT YEAR WILL BE CONTINUED IN 1967. IN THIS RESPECT, YOU MAY BE INTERESTED IN HOW WE ARRIVE AT OUR RECOMMENDATIONS TO THE PRESIDENT.

ACTUALLY, OF COURSE, THE PRESIDENT SEEKS ADVICE FROM A GREAT NUMBER OF SOURCES -- FROM ALL OF HIS CABINET MEMBERS AND THE INDEPENDENT AGENCIES OF THE GOVERNMENT, FROM BUSINESS AND FINANCIAL GROUPS, LABOR AND FARM REPRESENTATIVES, THE ACADEMIC COMMUNITY, MEMBERS OF CONGRESS AND MANY INDIVIDUALS. SINCE 1961 HOWEVER, BOTH PRESIDENTS KENNEDY AND JOHNSON IN REACHING THEIR FINAL DECISIONS HAVE RELIED HEAVILY ON THE RECOMMENDATIONS AND COMMENTS OF AN INFORMAL GROUP IN THE GOVERNMENT WHICH IS SOMEWHAT FACETIOUSLY REFERRED TO AS THE "TROIKA." IT CONSISTS OF THE SECRETARY OF THE TREASURY, THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS, AND THE DIRECTOR OF THE BUREAU OF THE BUDGET.

THE TROIKA IS A THREE-AGENCY GROUP BUT IT IS ALSO A THREE-LAYERED GROUP. STAFF EXPERTS OF THE THREE AGENCIES MAKE UP THE FIRST LAYER. THESE PEOPLE PREPARE THE BACKGROUND MATERIAL -- THE LATEST STATISTICAL DEVELOPMENTS AND THE PROJECTIONS OF THE ECONOMIC BEHAVIOR OF VARIOUS SECTORS OF THE ECONOMY. IN SETTING THE ESTIMATE OF GOVERNMENT SPENDING AND REVENUES ALONGSIDE THE ANTICIPATED BEHAVIOR OF THE NON-FEDERAL COMPONENTS OF THE GNP, WE ARE PROVIDED WITH A BASIC FRAMEWORK FOR POLICY RECOMMENDATIONS.

THE MIDDLE LAYER OF THE TROIKA CONSISTS OF AN ASSISTANT SECRETARY OF THE TREASURY, A FUNCTION WHICH I PERFORM, ALONG WITH AN ASSISTANT DIRECTOR OF THE BUDGET, DR. CHARLES ZWICK, AND A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS,

DR. ARTHUR OKUN. THIS LAYER REVIEWS THE PROJECTIONS OF ITS STAFF AND RELATES IT TO THE POLICY DECISIONS WHICH MUST BE MADE.

THE TOP LAYER IS THE TROIKA ITSELF -- SECRETARY FOWLER, CHAIRMAN ACKLEY AND DIRECTOR SCHULTZE -- WHICH REVIEWS OUR ANALYSES AND DECIDES ON THE FINAL RECOMMENDATIONS OR COMMENTS WHICH WILL BE PRESENTED TO THE PRESIDENT.

BASIC TO THIS ENTIRE PROCESS IS OUR PROJECTION OF GNP. IF THE PROJECTION INDICATES A SLOW RATE OF GROWTH AND RISING UNEMPLOYMENT, POLICY RECOMMENDATIONS WILL OBVIOUSLY BE DIFFERENT THAN IF THE PROJECTION INDICATES THAT THE ECONOMY WILL SURPASS ITS POTENTIAL FOR GROWTH WITHOUT INFLATION. UNDER PRESENT CONDITIONS, FOR EXAMPLE, WE FEEL THAT A REAL GNP GROWTH RATE AVERAGING SOMEWHAT BETTER THAN 4% A YEAR CAN BE ACHIEVED WITHOUT EITHER STRONG INFLATIONARY PRESSURES OR RISING UNEMPLOYMENT. IF ANTICIPATED GROWTH EXCEEDS THIS RATE BY AN APPRECIABLE AMOUNT, THERE IS A GREATER POSSIBILITY THAT PART OF THE INCREASE WILL BE IN THE FORM OF HIGHER PRICES WHICH ADD NOTHING TO REAL GROWTH AND CAUSE IMBALANCES IN THE ECONOMY. ON THE OTHER HAND, IF PROJECTED GROWTH FALLS SIGNIFICANTLY BELOW THAT RATE, WE WILL NOT BE EXPANDING IN ACCORDANCE WITH OUR POTENTIAL, UNEMPLOYMENT IS LIKELY TO RISE AND THE DANGER OF A RECESSION MUST BE TAKEN INTO ACCOUNT.

ECONOMIC FORECASTING, DESPITE RECENT IMPROVEMENTS, IS STILL NOT AN EXACT SCIENCE. NEVERTHELESS IT IS FAR BETTER THAN SEAT-OF-THE-PANTS GUESSES AND A NECESSARY INGREDIENT TO THE EXERCISE OF SOUND JUDGMENT AFFECTING THE NATIONAL ECONOMY.

CONTINUING PROBLEMS

WE HAVE FOUND THROUGH THE YEARS THAT GOVERNMENT EXPENDITURES ARE OF LIMITED UTILITY AS A TOOL OF ECONOMIC STABILIZATION POLICY. WHEN CONDITIONS WERE SUCH THAT HIGHER EXPENDITURES COULD HAVE BEEN HELPFUL, AS IN 1961, WE FOUND IT VERY DIFFICULT TO GET ANY SUBSTANTIAL AMOUNTS OF ADDITIONAL SPENDING UNDERWAY QUICKLY ENOUGH TO DO MUCH GOOD. LOOSENING THE PURSE STRINGS IS ALWAYS POPULAR BUT IT TAKES TIME TO GET NEW SPENDING PROGRAMS OFF THE GROUND.

WE ENCOUNTER A SIMILAR STICKINESS WHEN WE TRY TO CUT EXPENDITURES. ALL REDUCTIONS ARE POLITICALLY SENSITIVE. FOR EXAMPLE, WE HAD HOPED THAT THE ENACTMENT OF THE FEDERAL AID TO EDUCATION PROGRAM WOULD ENABLE US TO CUT BACK SOME OF THE SPECIAL PROGRAMS SUCH AS AID TO SCHOOLS IN FEDERALLY-AFFECTED AREAS AND THIS WAS RECOMMENDED. HOWEVER, MANY MEMBERS OF CONGRESS HAD SCHOOLS IN THEIR DISTRICTS WHICH BENEFITED FROM THE OLDER PROGRAM. THEY TOOK A DIM VIEW OF SUCH CUTBACKS AND WERE ABLE TO PREVENT THEM.

NEVERTHELESS, EVEN THOUGH LIMITED, EXPENDITURES POLICIES CAN HELP, ESPECIALLY BY RESTRAINING INCREASES. THE PRESIDENT'S PLAN OF SAVING $3 BILLION WILL NOT BE POPULAR, BUT IT WILL HOLD DOWN AGGREGATE DEMAND. REDUCTIONS ARE ALREADY UNDER WAY IN THE FORM OF CONSTRUCTION STRETCH-OUTS, LIMITATIONS ON THE USE OF OVERTIME, PERSONNEL FREEZES AND OUTRIGHT PROGRAM POSTPONEMENTS.

TAX CHANGES CAN BE EFFECTIVE BUT THEY, TOO, ARE CONTROVERSIAL AND TAKE A GREAT DEAL OF TIME. IT TOOK OVER A YEAR TO GET THROUGH OUR FIRST TAX PROGRAM, THE INVESTMENT CREDIT, ENACTED IN 1962, AND ALSO OVER A YEAR TO ENACT THE COMPREHENSIVE TAX CUT IN 1964. HOWEVER, IT REQUIRED ONLY TWO MONTHS TO PASS THE EXCISE TAX REDUCTION ACT OF 1965 AND THE TAX ADJUSTMENT ACT OF 1966. IT NOW LOOKS AS THOUGH EVEN LESS TIME WILL BE REQUIRED FOR CONGRESS TO ACT ON THE PRESIDENT'S RECOMMENDATION OF SEPTEMBER 8 TO SUSPEND THE INVESTMENT CREDIT.

NEVERTHELESS, I THINK WE ALL RECOGNIZE THAT ANY EFFORT TO RAISE INDIVIDUAL AND CORPORATE INCOME TAX RATES WOULD NOT ONLY TAKE A GREAT DEAL OF TIME, BUT WOULD BE SUBJECT TO GREAT CONTROVERSY. WHAT WE HAVE DONE SO FAR TO OFFSET PRICE PRESSURES HAS NOT AFFECTED ANYONE'S TAX RATES. THE TAX ADJUSTMENT

ACT OF 1966 CHANGED PAYMENT DATES AND POSTPONED SCHEDULED EXCISE TAX REDUCTIONS FOR AUTOMOBILES AND TELEPHONE SERVICE. EVEN THE PRESIDENT'S MOST RECENT PROPOSAL DOES NOT CHANGE TAX RATES BUT INSTEAD ELIMINATES A BONUS PROVIDED FOR INVESTMENT.

OBVIOUSLY, NO ONE LIKES TO HAVE HIS TAXES INCREASED. CONGRESS IS ELECTED BY MILLIONS OF INDIVIDULAS WHO MAY NOT ACCEPT THE CONNECTION BETWEEN TAX PAYMENTS AND PRICE LEVELS -- THAT IF THEY PAY AN EXTRA FEW DOLLARS A WEEK IN TAXES THE GOODS THEY BUY WILL COST LESS THAN THEY WOULD IF TAXES WERE NOT INCREASED.

CONSIDER THE DEBATES OVER RECOMMENDATIONS TO CUT TAXES WHICH WERE FIRST PROPOSED IN 1963. I REMEMBER TALKING WITH FINANCIAL GROUPS WHO WERE AGAINST ANY TAX CUT WHILE THE BUDGET WAS IN DEFICIT. HOWEVER, EACH ONE OF THESE INDIVIDUALS WAS SCHEDULED TO BENEFIT CONSIDERABLY BY THE TAX REDUCTION. INITIALLY THEY WERE AGAINST THE TAX CUT, BUT THEY COULD NOT HELP BUT LIKE THE IDEA OF HAVING MORE MONEY TO SPEND. THEIR OPPOSITION, I MUST SAY, WAS NOT THE STRONGEST OF ANY I HAD EVER SEEN.

IN THE CASE OF EXPENDITURES, ALTHOUGH EVERYONE IS FOR REDUCTIONS IN GENERAL, SO MANY PEOPLE BENEFIT FROM THE VARIOUS PROGRAMS THAT PROPOSALS FOR SPECIFIC CUTS ARE INVARIABLY MET WITH A BARRAGE OF OPPOSITION.

THERE IS, THUS, A NATURAL INCLINATION FOR EXPENDITURES TO RISE AND TAXES TO FALL. THEREFORE, WE WERE ABLE TO GAIN GENERAL ACCEPTANCE OF APPROPRIATE FISCAL PROGRAMS DURING PERIODS OF EXCESSIVE UNEMPLOYMENT. SINCE WE HAVE NOT TRIED TO RAISE TAX RATES WE HAVE ALSO BEEN SUCCESSFUL WITH OUR ANTI-INFLATIONARY FISCAL PROGRAM THIS YEAR. BUT WHAT WILL HAPPEN IF INFLATIONARY

PRESSURES INCREASE? AND WHAT IF WE WANTED TO CUT TAXES ON A TEMPORARY BASIS? COUND WE EVER GET THE ORIGINAL RATES RESTORED IF THIS BECAME NECESSARY?

CONSIDERING NEW APPROACHES

THE DESIRABILITY OF ACHIEVING GREATER FLEXIBILITY IN FISCAL POLICY LED THE COMMISSION ON MONEY AND CREDIT TO INCLUDE A RECOMMENDATION TO GIVE THE PRESIDENT AUTHORITY TO VARY INCOME TAX RATES WITHIN A LIMITED RANGE. A REVEIW OF THE CMC RECOMMENDATIONS BY THE KENNEDY ADMINISTRATION LED IN 1962 TO PRESIDENT KENNEDY'S PROPOSAL THAT THE PRESIDENT BE GIVEN STANDBY AUTHORITY TO MAKE REDUCTIONS IN PERSONAL INCOME TAX RATES SUBJECT TO CONGRESSIONAL VETO. OPPOSITION TO THIS PROPOSAL LED TO RECENT SUGGESTIONS FOR VARIOUS TYPES OF IMPROVEMENTS IN CONGRESSIONAL PROCEDURES TO SPEED CONSIDERATIONS OF TAX CHANGES FOR SHORTRUN STABILIZATION PURPOSES. LAST SPRING, A SUBCOMMITTEE OF THE JOINT ECONOMIC COMMITTEE HELD HEARINGS ON THIS ISSUE "TO CONSIDER TECHNIQUES AND PROCEDURES FOR MAINTAINING AGGREGATE DEMAND EQUAL TO CAPACITY SUPPLY THROUGH PROMPT VARIATION IN TAX RATES."

THE SUBCOMMITTEE'S REPORT STATED THAT "OF THE MANY ALTERNATIVE TAX CHANGES SUGGESTED TO US AS SUITABLE, WE THINK THAT A UNIFORM PERCENTAGE ADDITION TO OR SUBTRACTION FROM CORPORATE AND PERSONAL INCOME TAX LIABILITIES BE COMPUTED UNDER PRESENT PROVISIONS OF THE TAX CODE, TO BE EFFECTIVE FOR A STATED PERIOD, BEST SATISFIES CRITERIA FOR SHORTRUN STABILIZING REVENUE CHANGES."

THE SUBCOMMITTEE RECOMMENDED THAT ANY CHANGE BE ADOPTED FOR A DEFINITE TERM, AND THAT SUCH TERM SHOULD BE SHORT, "PERHAPS NOT LONGER THAN ONE YEAR" IN ORDER TO ASSURE THAT THE QUESTION OF WHAT SHOULD BE THE APPROPRIATE RATE WOULD RECEIVE FREQUENT REVIEW.

IT IS NOT NECESSARY TO MAKE ANY CHANGES IN THE LAW TO CARRY OUT THE RECOMMENDATIONS OF THE REPORT. THE PRESIDENT CAN AT ANY TIME RECOMMEND TO CONGRESS ANY CHANGES HE FEELS WOULD BE DESIRABLE.

FROM AN ECONOMIC POINT OF VIEW, MOREOVER, IT IS NOT NECESSARY TO MAKE CHANGES EFFECTIVE EVEN FOR AS LONG A PERIOD AS A YEAR. THERE IS NOTHING MAGICAL ABOUT A CALENDAR YEAR. WHAT IS IMPORTANT IS THE IMPACT OF TAXES ON PURCHASING POWER DURING ANY SPECIFIC PERIOD, WHICH IS PARTICULARLY RELATED TO WITHHOLDING RATES ON WAGES AND SALARIES. THEREFORE, CONSIDERATION SHOULD ALSO BE GIVEN TO THE POSSIBILITY OF MAKING TAX CHANGES EFFECTIVE FOR PERIODS OF LESS THAN A YEAR WHEN SUCH A POLICY WOULD CLEARLY BE ADVANTAGEOUS.

THE CURRENY PAYMENT SYSTEM THAT WE HAVE FOR INDIVIDUALS THROUGH WITHHOLDING AND ESTIMATED TAXES, AND FOR CORPORATIONS THROUGH CURRENT PAYMENTS, PERMIT RATE CHANGES TO HAVE AN ALMOST IMMEDIATE EFFECT ON THE ECONOMY. IN THE AREA OF INDIVIDUAL TAXES PARTICULARLY A LARGER WITHHOLDING RATE CHANGE EFFECTIVE FOR PART OF A YEAR, CAN BE COMBINED WITH A SMALLER CHANGE IN THE BASIC RATES USED TO COMPUTE THE FINAL LIABILITY -- WHETHER THE NEED IS FOR HIGHER OR FOR LOWER RATES.

SUCH A COURSE MIGHT, AT TIMES HAVE BOTH POLITICAL AND ECONOMIC ADVANTAGES. CONSIDER FOR EXAMPLE, A TAX CHANGE INVOLVING ALTERATION OF WITHHOLDING RATES TO BE EFFECTIVE FOR ONLY SIX MONTHS. IN THIS WAY THE TOTAL AMOUNT OF THE INCREASE OR DECREASE COULD BE CUT IN HALF, MAKING AN INCREASE MORE ACCEPTABLE FROM A POLITICAL POINT OF VIEW, AND A DECREASE EASIER TO DROP, IF NECESSARY.

ALSO, THE FACT THAT IT WOULD BE EFFECTIVE FOR ONLY SIX MONTHS WOULD GIVE THE TAXPAYER NOTICE THAT THE NEW RATE WOULD NOT BE FOREVER FROZEN AT THE NEW LEVEL. FROM AN ECONOMIC STANDPOINT, A SIX MONTH CHANGE IN TAX RATES WOULD VARY AGGREGATE DEMAND DURING THAT PERIOD ABOUT AS MUCH AS WOULD A YEAR'S CHANGE.

ANOTHER ADVANTAGE OF OCCASIONAL SHORT-TERM CHANGES IN TAX RATES IS THAT MODEST VARIATIONS COULD BE EMPLOYED. THERE ARE MANY INDIVIDUALS, BOTH IN CONGRESS AND IN THE PUBLIC AT LARGE, WHO VIEW TAX CHANGES AS MAJOR SURGERY. MORE FREQUENT AND MORE MODEST CHANGES MIGHT BE PRESENTED AS A METHOD OF AVOIDING SERIOUS OPERATIONS. IN THIS RESPECT BUSINESSMEN, AND INDIVIDUALS AS WELL, WILL ACCEPT VARIATIONS IN PROFITS, WAGES, UNEMPLOYMENT, PRICES AND OVER-ALL ECONOMIC GROWTH BUT TEND TO FAVOR FIXED TAX RATES IN ORDER TO PERMIT RATIONAL PLANNING FOR THE FUTURE. HOWEVER, IF MODEST RATE CHANGES COULD HAVE THE EFFECT OF REDUCING FLUCTUATIONS IN THE OTHER ACCEPTED VARIABLES, THIS SHOULD PERMIT A BETTER, RATHER THAN A POORER, BASIS FOR PLANNING.

TEMPORARY TAX CHANGES OF SHORT DURATION SHOULD THEREFORE BE CONSIDERED -- NOT ONLY FOR INCREASES, BUT ALSO FOR DECREASES. THE ECONOMY MIGHT FIND ITSELF IN THE POSITION OF NEEDING A QUICK BUT MILD STIMULANT IN THE FORM OF A TAX CUT -- ESPECIALLY IF THERE IS A SETTLEMENT IN VIET NAM. SIX MONTHS LATER THE ECONOMIC SITUATION MIGHT CALL FOR A RETURN TO THE PREVIOUS RATES IF UNEMPLOYMENT DROPPED, PRODUCTION ROSE, AND PRICE PRESSURES REAPPEARED. TO HAVE A TAX CHANGE AUTOMATICALLY END MIGHT GIVE US THE FLEXIBILITY NECESSARY TO ACHIEVE APPROPRIATE FISCAL POLICIES -- WHETHER THEY BE TAX INCREASES OR DECREASES.

SUCH FLEXIBILITY MIGHT PROVIDE A NEEDED REFINEMENT IN THE USE OF FISCAL POLICY TO ACHIEVE ECONOMIC GROWTH AND STABILITY. MODEST, BRIEF CHANGES SHOULD GIVE MUCH BETTER CONTROL OF ECONOMIC SPEED THAN BIG, CONTROVERSIAL CHANGES. INSTEAD OF FLOOR-BOARDING THE ACCELERATOR OR JAMMING ON THE BRAKES, WE COULD SIMPLY VARY OUR SPEED TO MATCH THE NEED. THIS COULD BE ACHIEVED WITHOUT TAMPERING WITH CONGRESSIONAL TAX PREROGATIVES AS THE CMC PROPOSAL WOULD DO.

GREATER FLEXIBILITY IN FISCAL POLICY COULD ALSO MAKE IT MORE LIKE MONETARY POLICY -- QUICKLY ADAPTABLE TO ECONOMIC NEEDS BY PERMITTING FAST BUT GENTLE CHANGES OF EMPHASIS. IF THIS COULD BE ACCOMPLISHED, IT WOULD GREATLY RELIEVE THE HEAVY BURDEN WHICH MONETARY POLICY HAS HAD TO CARRY, AND PERMIT MORE BALANCED ADJUSTMENTS TO TAKE PLACE.

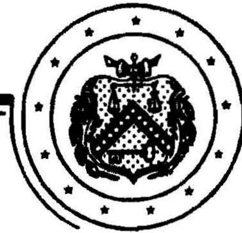
THE IDEA OF MEETING THE NEED FOR FLEXIBLE FISCAL POLICIES BY MEANS OF SHORT-TERM TAX CHANGES SHOULD THUS BE EXPLORED, IN MY OPINION. OF COURSE, NO SUCH INNOVATION WOULD BE RECOMMENDED BY THE ADMINISTRATION WITHOUT A GREAT DEAL OF FURTHER STUDY, SO I WOULD VERY MUCH LIKE TO GET THE OPINIONS OF NICB PARTICIPANTS ABOUT IT.

SUMMARY

WE HAVE, IN RECENT YEARS, BEEN SUCCESSFUL IN DEVELOPING TOOLS FOR BETTER ECONOMIC ANALYSIS AND IN SECURING APPROPRIATE POLICIES. BUT WE NEED CONSTANTLY TO WORK TOWARD REFINEMENT OF THESE TOOLS AND DEVELOP NEW ONES THROUGH THE PROCESS OF CONTINUING RESEARCH. IN ADDITION, WE MUST SEEK IMPROVED METHODS, INVOLVING BOTH THE PRESIDENT AND CONGRESS, OF MAKING NECESSARY CHANGES POLITICALLY ACCEPTABLE. SOME METHOD OF MOVING MORE QUICKLY WOULD BE HIGHLY DESIRABLE TO COMBAT BOTH RECESSIONS AND INFLATION.

MEANWHILE, "THE ROLE AND POLICIES OF THE FEDERAL GOVERNMENT IN 1967" WILL, AS IN THE PAST, BE DEVELOPED TO THE BEST OF OUR ABILITIES AND, HOPEFULLY, GOOD POLICIES WILL CONTINUE TO PREVAIL.

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 7, 1966

FOR IMMEDIATE RELEASE

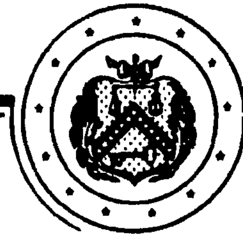
WITHHOLDING OF APPRAISEMENT ON
TUBELESS TIRE VALVES

The Treasury Department is instructing customs field officers to withhold appraisement of finished tubeless tire valves (except item Nos. TR 413 and TR 415 produced by Alligator Ventilfabrik, Giengen-Brenz), from West Germany 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. This withholding order will apply to importations entered, or withdrawn from warehouse, for consumption after publication of the order, which will appear in the Federal Register in the near future.

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 April 26, 1966. This information was the subject of an "Antidumping Proceeding Notice" which was published on page 9751 of the Federal Register of July 19, 1966, pursuant to section 14.6(d), Customs Regulations.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, October 10, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury
s, one series to be an additional issue of the bills dated July 14, 1966, and
other series to be dated October 13, 1966, which were offered on October 5,
, were opened at the Federal Reserve Banks today. Tenders were invited for
00,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts,
82-day bills. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	91-day Treasury bills maturing January 12, 1967		:	182-day Treasury bills maturing April 13, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.630 a/	5.420%	:	97.102	5.732%
Low	98.608	5.507%	:	97.084	5.768%
Average	98.617	5.471% 1/	:	97.093	5.750% 1/

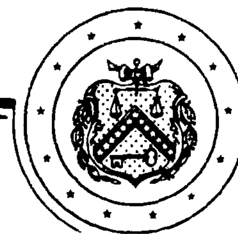
a/ Excepting 2 tenders totaling $1,725,000
75% of the amount of 91-day bills bid for at the low price was accepted
12% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied for	Accepted	:	Applied for	Accepted
ston	$ 28,996,000	$ 18,996,000	:	$ 23,617,000	$ 6,736,000
York	1,475,029,000	679,029,000	:	1,400,101,000	574,337,000
ladelphia	33,175,000	21,175,000	:	16,359,000	8,244,000
veland	52,621,000	42,621,000	:	28,305,000	23,305,000
hmond	13,849,000	13,849,000	:	13,711,000	8,711,000
anta	53,203,000	49,128,000	:	36,117,000	19,317,000
cago	292,711,000	156,961,000	:	249,500,000	122,620,000
Louis	69,773,000	65,523,000	:	64,423,000	54,623,000
neapolis	23,490,000	23,490,000	:	16,460,000	12,520,000
sas City	41,335,000	41,335,000	:	18,557,000	17,815,000
las	29,803,000	23,803,000	:	18,042,000	14,162,000
Francisco	164,102,000	164,102,000	:	200,140,000	135,668,000
TOTALS	$2,278,087,000	$1,300,012,000 b/		$2,085,332,000	$1,000,058,000 c/

cludes $329,418,000 noncompetitive tenders accepted at the average price of 98.617
cludes $204,256,000 noncompetitive tenders accepted at the average price of 97.093
ese rates are on a bank discount basis. The equivalent coupon issue yields are
62% for the 91-day bills, and 6.00% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 11, 1966

FOR IMMEDIATE RELEASE

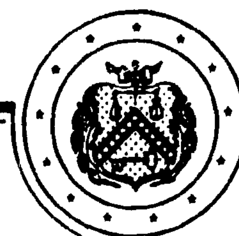
TREASURY MARKET TRANSACTIONS IN SEPTEMBER

During September 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 $55,546,500.00.

oOo

F-652

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, October 11, 1966.

RESULTS OF TREASURY'S OFFERING OF $3.5 BILLION TAX ANTICIPATION BILLS

The Treasury Department announced that the tenders for two series of Treasury Tax Anticipation bills, one series to be an additional issue of the bills dated August 26, 1966, and the other series to be dated October 18, 1966, which were offered on October 5, 1966, were opened at the Federal Reserve Banks today. Tenders were invited for $1,500,000,000, or thereabouts, of 185-day bills and for $2,000,000,000, or thereabouts, of 247-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	185-day Tax Anticipation bills maturing April 21, 1967		:	247-day Tax Anticipation bills maturing June 22, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.203 a/	5.443%	:	96.206	5.530%
Low	97.169	5.509%	:	96.130	5.640%
Average	97.182	5.484% 1/	:	96.167	5.587% 1/

a/ Excepting one tender of $55,000

77% of the amount of 185-day bills bid for at the low price was accepted
93% of the amount of 247-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	$ 91,120,000	$ 30,020,000	:	$ 112,375,000	$ 77,955,000
New York	976,107,000	618,657,000	:	937,457,000	628,587,000
Philadelphia	76,880,000	29,880,000	:	98,855,000	94,785,000
Cleveland	127,975,000	77,725,000	:	209,839,000	203,489,000
Richmond	41,510,000	24,810,000	:	35,685,000	20,685,000
Atlanta	113,755,000	101,055,000	:	50,740,000	42,786,000
Chicago	378,952,000	276,552,000	:	355,396,000	341,356,000
St. Louis	65,605,000	55,955,000	:	92,365,000	71,865,000
Minneapolis	109,755,000	70,755,000	:	93,820,000	78,820,000
Kansas City	59,779,000	45,034,000	:	29,059,000	28,609,000
Dallas	48,694,000	33,394,000	:	60,600,000	45,250,000
San Francisco	162,861,000	136,561,000	:	374,125,000	366,125,000
Totals	$2,272,993,000	$1,500,398,000 b/		$2,450,316,000	$2,000,312,000 c/

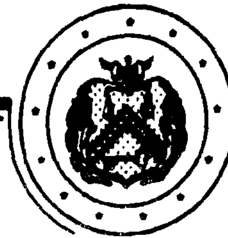
Includes $231,893,000 noncompetitive tenders accepted at the average price of 97.182

Includes $217,166,000 noncompetitive tenders accepted at the average price of 96.167

These rates are on a bank discount basis. The equivalent coupon issue yields are 5.72% for the 185-day bills, and 5.85% for the 247-day bills.

- 653

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 11, 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 October 20,1966, in the amount of $ 2,302,037,000, as follows:

91-day bills (to maturity date) to be issued October 20,1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated July 21,1966, and to mature January 19,1967, originally issued in the amount of $1,001,376,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated October 20,1966, and to mature April 20, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, October 17, 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-654

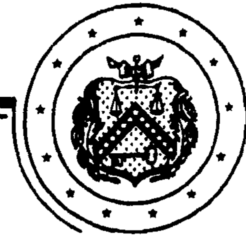
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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 October 20,1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 20, 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 12, 1966

FOR IMMEDIATE RELEASE

NICHOLAS A. REY NAMED HEAD OF
TREASURY'S EXECUTIVE SECRETARIAT

Treasury Secretary Henry H. Fowler today appointed Nicholas A. Rey as a Special Assistant to the Secretary and Director of the Treasury Department's Executive Secretariat.

Mr. Rey, 28, succeeds Robert J. Moody, who has resigned to join the FMC Corporation, San Jose, California.

The Treasury's Executive Secretariat is the central coordinating staff of the department, serving the Secretary and the Under Secretaries.

Mr. Rey, will assume his new post on Monday, October 17, 1966. He joined the Treasury Department in May 1963, as the head of the Secretariat in the Office of the Assistant Secretary for International Affairs. Since early 1965, he has been an economist in the Office of International Gold and Foreign Exchange Operations. He is a graduate of Princeton University and the Johns Hopkins School of Advanced International Studies.

oOo

F-655

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE

THURSDAY, OCTOBER 13,1966

F-656

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, 1966 - October 10, 1966

Country of Origin	Established Quota	Imports	Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-	Honduras	752	-
Peru	247,952	-	Paraguay	871	-
India and Pakistan	2,003,483	-	Colombia	124	-
China	1,370,791	-	Iraq	195	-
Mexico	8,883,259	-	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, 1966 - October 10, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	20,395,401
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	[illegible]

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, 1966, to Oct. 10, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1966 to Oct. 10, 1966
United Kingdom............	4,323,457	-	1,441,152	-
Canada....................	239,690	67,453	-	-
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	67,453	1,599,886	-

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, OCTOBER 13, 1966

F-657

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1966, to October 1, 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 Oct. 1, 1966
Buttons	510,000	Gross	334,250
Cigars	120,000,000	Number	8,339,138
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	5,409,200
Tobacco	3,900,000	Pound	2,696,012

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, OCTOBER 13,1966

F-658

The Bureau of Customs announced today preliminary figures showing the quantities of wheat and milled wheat products authorized to be entered, or withdrawn from warehouse, for consumption under the import quotas established in the President's proclamation of May 28, 1941, as modified by the President's proclamation of April 13, 1942, and provided for in the Tariff Schedules of the United States, for the 12 months commencing May 29, 1966, as follows:

Country of Origin	Wheat		Milled wheat products	
	Established Quota	Imports May 29, 1966, Oct. 10, 1966	Established Quota	Imports May 29, 1966, Oct. 10, 1966
	(Bushels)	(Bushels)	(Pounds)	(Pounds)
Canada	795,000	790,156	3,815,000	3,815,000
China	-	-	24,000	-
Hungary	-	-	13,000	-
Hong Kong	-	-	13,000	-
Japan	-	-	8,000	-
United Kingdom	100	-	75,000	-
Australia	-	-	1,000	-
Germany	100	-	5,000	-
Syria	100	-	5,000	-
New Zealand	-	-	1,000	-
Chile	-	-	1,000	-
Netherlands	100	-	1,000	-
Argentina	2,000	-	14,000	-
Italy	100	-	2,000	-
Cuba	-	-	12,000	-
France	1,000	-	1,000	-
Greece	-	-	1,000	-
Mexico	100	-	1,000	-
Panama	-	-	1,000	-
Uruguay	-	-	1,000	-
Poland and Danzig	-	-	1,000	-
Sweden	-	-	1,000	-
Yugoslavia	-	-	1,000	-
Norway	-	-	1,000	-
Canary Islands	-	-	1,000	-
Rumania	1,000	-	-	-
Guatemala	100	-	-	-
Brazil	100	-	-	-
Union of Soviet Socialist Republics	100	-	-	-
Belgium	100	-	-	-
Other foreign countries or areas	-	-	-	-
	800,000	790,156	4,000,000	3,815,000

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, OCTOBER 13,1966 F-659

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 October 1, 1966:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Oct. 1, 1966
Tariff-Rate Quotas:				
Cream, fresh or sour.........	Calendar year	1,500,000	Gallon	1,085,717
Whole Milk, fresh or sour ...	Calendar year	3,000,000	Gallon	-
Cattle, 700 lbs. or more each (other than dairy cows)....	July 1, 1966 - Sept. 30, 1966	120,000	Head	38,625
Cattle, less than 200 lbs. each......................	12 mos. from April 1, 1966	200,000	Head	96,484
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	65,662,200	Pound	43,297,070
White or Irish potatoes:				
Certified seed............	12 mos. from	114,000,000	Pound	82,034,916
Other.....................	Sept. 15,1965	45,000,000	Pound	31,888,294
	12 mos. from	114,000,000	Pound	-
	Sept. 15,1966	45,000,000	Pound	1,277,520
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	1,305,808 2/
Other brooms................	Calendar year	2,460,000	Number	2,442,636 2/

1/ Imports for consumption at the quota rate are limited to 17,693,574 pounds during the first 9 months of the calendar year.

2/ Imports as of October 8, 1966.

Commodity	Period and Quantity		Unit of Quantity	Imports as of Oct. 1, 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	.
	12 mos. from Sept. 11, 1966	1,000	Pound	.
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from August 1, 1966	1,709,000	Pound	192,30

1/ Imports as of October 8, 1966.

F=659

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
THURSDAY, OCTOBER 13,1966

F-660

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 - September 19, 1966

Country of Origin	Established Quota	Imports	Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-	Honduras	752	-
Peru	247,952	181,062	Paraguay	871	-
India and Pakistan	2,003,483	-	Colombia	124	-
China	1,370,791	-	Iraq	195	-
Mexico	8,883,259	1,568,113	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, 1966 - September 19, 1966

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	18,733,013
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	105,626

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 Sept. 19, 1966	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1965 to Sept. 19, 1966
United Kingdom............	4,323,457	78,062	1,441,152	78,062
Canada....................	239,690	86,824	-	-
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	22,595	25,443	-
Italy.....................	21,263	-	7,088	-
Other, including the U.S..	-	-	-	-
	5,482,509	187,481	1,599,886	78,062

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

F-660

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE
THE 28TH ANNUAL BUILDING PRODUCTS EXECUTIVE CONFERENCE
AT
THE STATLER HILTON HOTEL, WASHINGTON, D. C.
THURSDAY, OCTOBER 13, 1966, 2:00 O'CLOCK P.M., EDT

I welcome the opportunity to speak to you today on a subject with which I am intimately involved and which is surely a matter of great interest to you and to all thinking persons in the nation. I propose to discuss the President's anti-inflation program: some of the events and conditions that led to it, and what we in the government, behind President Johnson's leadership, are doing now to check inflation.

Today there is widespread agreement in the nation that Federal tax policy should be used to apply restraint to our ebullient economy in order to avert inflationary dangers.

When the President announced his anti-inflation program on September 8 and sent to the Congress his proposals to suspend two important tax incentives for business investment, it was the first time tax policy had been used in a period of prosperity and near-balance in the Federal budget to cool off a major sector of the economy that was overheating.

Thus his program is a major milestone in American economic policy. It carries forward the economic thinking which underlay the decisions of President Kennedy and President Johnson to cut Federal taxes despite the budget deficits entailed in order to stimulate the economy in a period of inadequate growth.

The program the President announced and sent to the Congress on September 8 was promised conditionally last January.

In his budget message on January 24, President Johnson said, and I quote:

> "If . . . . 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."

The President had just proposed to the Congress a speed-up in the collection of corporate taxes, graduated withholding of individual taxes to make the amounts withheld more nearly equal to individual tax liabilities, and postponement of two of the excise tax reductions enacted the previous year.

This program did not increase any person's or corporation's total tax liabilities. But by taking additional sums out of the economy in the short term, it provided additional funds for financing our commitment in Vietnam and exerted an anti-inflationary effect.

With this program and other measures, the Federal government is taking an additional $10 billion in excess purchasing power out of the economy during the current calendar year, compared with last year.

The President repeatedly expressed the hope that those actions would be sufficient to keep our economy from overheating as it passed through our sixth year of expansion.

While we were concerned about the possibility of inflation, we were also concerned lest we over-react -- that instead of slowing down the economy's growth and averting inflation we might slow it down too much and bring on a recession. The nation had to put up with that experience during the 1950s. We are determined that we will not repeat it in the 1960s.

Over and over again President Johnson has reassured the American people that he and his advisers were watching the performance of the economy very closely and that, if developments made it necessary, he would take the action promised in January.

In recent months and weeks the economic picture has come more sharply into focus.

The economy continues to enjoy a vigorous and healthy expansion. But there are some soft spots.

Our economy and the financial system that services it have been experiencing at least three clearly discernible pressures:

-- in the money and financial markets, excessive demands for credit, together with monetary restraint, have created severe tightness and a sharp rise in interest rates, with an unfortunate and highly selective impact on several sectors, particularly single-family housing;

-- in the market for capital goods, the ever-mounting flow of new orders by business firms, coming on top of an unprecedented rate of outlay for plant and equipment, is pushing up prices and wages, creating shortages of some skilled labor, and adding sharply to the large demands for capital from banks and the securities market;

-- the demands of our commitment to the defense of freedom in Vietnam have been rising.

There is a close relationship among these three sources of pressure:

Faster business spending breeds demand for credit from banks and for financing in the capital market.

Higher defense spending also generates credit demands -- by the government itself and by private firms which receive government orders and work on borrowed funds to fill new contracts.

Tight money itself causes additional government spending, particularly to help finance areas of important economic activity -- such as homebuilding -- from which the supply of private capital has been diverted.

Let me digress here momentarily to reassure you that, while we consider these conditions to be matters for concern, they are not a cause for alarm. The basic health and strength of our economy may be demonstrated with a few statistical observations:

-- the United States gross national product, which totalled just under $504 billion in 1960, is now running at an annual rate of more than $732 billion.

-- total personal income, in 1960, amounted to $385 billion; in mid-1966, it was running at an annual rate of nearly $560 billion.

-- the profits of our corporations, after taxes, today are running at an all-time high of almost $49 billion annually, compared with $26.7 billion in 1960 -- and business outlays for new plant and equipment, designed to produce newer and better products at lower unit costs, are running this year at more than $60 billion.

-- average farm income last year rose 23 percent, breaking all records, and has moved to higher ground again in 1966.

In short, the evidence is clear that we have solved the problems of a sluggish economy which required so much of our time, energy, and attention a few years ago.

As President Johnson observed last January, "We have learned how to achieve prosperity. . . now we must sustain it, deal with its problems, and make the most of the opportunities it presents."

The condition we face is that of an economy operating very close to the limits of its productive powers. Putting it another way, to continue under the pressures I have cited would be to try to do too much, too fast.

The President's program is designed to exert a moderate restraint on the economy at the pressure points -- to reduce our rate of expansion to a sustainable level.

Here are the main points of the program:

First, the President promised strong measures to reduce lower priority Federal expenditures.

When we take account of the needs of defense and other amounts in the fiscal 1967 budget which are fixed by law or otherwise uncontrollable, we find that only about $31 billion is actually subject to direct Presidential control.

Our best present estimate is that a reduction of some 10 percent -- about $3 billion -- will be required from that part of the budget. Realistically, of course, we cannot determine the exact amount that can be cut in that limited portion of the budget now. We must wait until the Congress completes action on the remaining appropriation bills.

Although the costs of the Vietnam conflict are uncertain, if this conflict extends beyond the current fiscal year, which ends next June 30, we will be forced to order additional material and equipment. To be on the safe side and to support our men in Vietnam, we must act on this contingency.

Federal civilian agencies have been directed to defer, stretch out, and otherwise reduce contracts, new orders, and commitments. Each major agency has been given a savings target, with orders to meet that target.

The President has proposed to defer and reduce Federal expenditures with reduced appropriation requests, through withholding of appropriations in excess of his budget recommendations, and by cutting spending in other areas which have significant fiscal impact in 1967.

But, in a time when individual incomes and corporate profits are at record heights, the President does not intend that these economies be made at the expense of programs for alleviating poverty, ill health, and inadequate education.

Both justice and sound economic considerations require that we do not allow inflation to levy its pernicious tax on the American people or on their business activities. But those same considerations demand that we do not avert inflation at the expense of the young, the old, the ill, and the deprived by denying them their chance for education, health, opportunity, and security.

Second, the President recommended that the Congress suspend the 7 percent investment tax credit for 16 months, making it operative again on January 1, 1968.

Our machinery and equipment industries cannot digest the demands currently thrust upon them. There is a ten-month average backlog on machine tool orders alone. On many machine tools, the order backlog exceeds 15 months.

Our capital markets are clogged with excessive demands for funds to finance investment. These demands bid interest rates higher and higher and draw too large a share of credit from other important uses.

A temporary suspension of the investment credit will relieve excessive pressures on our capital goods producers and on our financial markets. Our high-employment, high-profit economy will still provide abundant incentive for growth in capacity sufficient to produce the goods we need, to modernize facilities, and to maintain a strong international competitive position.

Third, the President recommended that the Congress suspend until January 1, 1968, the use of accelerated depreciation on all buildings and structures started or transferred on or after September 1, 1966.

The reasoning here was the same: we must not give a reward in the form of a tax advantage to investment which contributes to the pressures on the economy.

Fourth, the President asked the Federal Reserve Board, in executing its policy of monetary restraint, to cooperate with him and the Congress to lower interest rates and to ease the inequitable burden of tight money. He called on our large commercial banks to join in this effort.

Fifth, the President disclosed that we in the Treasury were reviewing all potential Federal security sales and would take action to keep them at the minimum in the months ahead.

In those five points the President mobilized the resources of the Federal government to relieve inflationary pressures in the economy.

But he went still further, calling on the entire nation to act responsibly to preserve the prosperity we all share and enjoy.

He called on the banks to allocate credit fairly and without extracting excessive profits. He urged them to rely less on high interest rates to price some borrowers out of the market and to rely more on placing of appropriate ceilings on credit.

He called on the Federal Reserve Board and the entire financial community to seize the earliest opportunity to reduce interest rates while allocating existing supplies of credit more equitably.

He called on business to base their credit demands on genuine needs rather than on speculation about future scarcities or higher costs; to maintain their inventory positions on the basis of current requirements rather than on fears or hopes that prices will go up; and to postpone investments that are not absolutely necessary now.

He also asked business to set prices on the basis of real costs, rather than building into them the assumption of future inflation, and to limit their profits to a level appropriate for a steadily expanding economy.

He called on labor to avoid wage demands that would raise the average level of costs and prices and to adopt work rules and standards for entry into its trades that are appropriate for a full-employment economy.

He also asked labor to cooperate with business to raise productivity, so that pay increases will be matched by increases in production.

That is the President's anti-inflation program, in brief. I am pleased to be able to report that, in addition to work already underway on reduction of expenditures, which I mentioned earlier, we have made important progress on all the other points of the program.

As you know, the House has passed the suspension of the investment credit and accelerated depreciation, with some changes from the President's original request, and

the Senate Finance Committee has reported the bill out favorably, although with further changes. We now expect the bill to come up on the Senate floor tomorrow.

It is generally not a good practice for members of the Administration to comment publicly in detail on legislation while it is being acted on in the Congress. So I will limit myself to two observations about the bill as it now stands.

First, our aim is to get a bill as close as feasible to the terms of the President's proposal.

Second, on the basis of my own service in the Congress and my years of dealing with the Congress as a member of the Administration, I am confident that our legislators will pass and send to the President a bill which will meet the nation's needs.

Turning to interest rates and the money situation, the Congress passed and the President signed a bill giving more flexible powers to our monetary authorities to set interest rate ceilings on consumer savings accounts.

The three regulatory agencies with responsibilities in this area -- the Federal Reserve Board, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation -- then moved promptly to make good use of that authority. The Federal Reserve Board and Federal Deposit Insurance Corporation acted to reduce existing interest rate ceilings on consumer savings deposits. The Federal Home Loan Bank Board established a ceiling rate for the first time. The response of the financial community to those measures has been favorable.

We have also made progress in reducing and rearranging government borrowing requirements. We are reviewing needs of Federal lending agencies for new money and cutting back wherever possible. We are going to meet remaining needs without requiring the private market to take up additional securities from Federal agencies.

The sale of participations in direct Federal loans, which had been tentatively scheduled for September, was cancelled. We announced that no such sale would be held this year unless the market improved. It was announced that

the Export-Import Bank would not sell any additional participations in the market for the rest of the year. These announcements also had a favorable market impact.

We in the Treasury began last month to meet our additional money needs for the balance of the year in ways that will have the minimum impact on the market. Federal Reserve actions have been coordinated with the program in order to gain the greatest effect in reducing interest rate pressures. The result of all this activity is that we have seen a decline in long-term Treasury, corporate, and municipal bond yields since the highs that were reached in late August.

So there is already evidence justifying the confidence which the President's anti-inflation program inspired.

Of course, there is no way of telling in advance whether the President's program will be sufficient to avert further inflationary danger. As he pointed out in outlining his program, and I quote:

> "Decisions made elsewhere will influence our defense needs in Vietnam. Because we cannot control or predict these outcomes, we cannot blueprint our fiscal measures in the months ahead. But should additional fiscal measures be required to preserve price stability and maintain sound fiscal policies, I will recommend them."

And, I will add, only time will tell whether further action will be necessary. Certainly, the prospect for improvement is very good under the program going into effect now.

We know, of course, that not all of the President's proposals are popular in all circles and fields of activity. There has been vigorous dissent, for example, with the proposals to suspend the two tax incentives, the investment credit and accelerated depreciation. Not to make too fine a point of it, I expect it might be fair to say that many of you may regard those proposals as crimps in your plans.

The President had a clear idea of what the reaction might be when he made his recommendations. But he made them anyway, because he knew the economy -- and our prosperity -- required them.

Let me quote him briefly just once more:

> "By continuing on a prudent course in our private and public policies and by preserving our capacity for stable economic growth, we can look forward to continuing progress. We can make that progress within the framework of a free economy. We do not want to resort to controls. If we take the necessary actions, next year should bring new heights in consumer living standards, in savings for the future, in our progress toward the Great Society."

What the President is saying is that, in exchange for the right to enjoy prosperity in a free nation, we must all be prepared to put aside or postpone some of our enjoyment and some of our free volition in order to preserve and protect that prosperity when it is threatened.

It is an essential part of our political maturity that we discuss economic policy as a public issue, open to debate by all concerned. We in the Administration encourage that debate.

But it is also an essential part of our political maturity that we accept the sacrifices which a free society requires of us. Our prosperity makes those sacrifices supportable, and our responsibilities to the future demand them.

oOo

TREASURY DEPARTMENT
Washington

FOR RELEASE MORNING NEWSPAPERS
SATURDAY, OCTOBER 15, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
IN THE ANNUAL LECTURE SERIES SPONSORED
BY THE NEWCOMEN SOCIETY IN NORTH AMERICA
AT THE UNITED STATES COAST GUARD ACADEMY
NEW LONDON, CONNECTICUT
FRIDAY, OCTOBER 14, 1966, 8:00 P.M., EDT

I am sure that every Secretary of the Treasury before me felt -- as I feel -- that no aspect of that office affords greater pleasure or pride than its association with one of America's most distinguished organizations -- the United States Coast Guard.

And to come here tonight to this fine Academy under the auspices of so unique and outstanding an institution as the American Newcomen is a rare pleasure indeed.

I know that over the years the Newcomen Society has maintained the closest association with the Coast Guard Academy -- and I find it hard to imagine a more appropriate or complementary relationship. For the interests and endeavors of the American Newcomen center upon "material," as distinguished from political, history -- upon, as you have summarized it in one of your publications, "the background of those factors which have contributed or are contributing to the progress of Mankind." And in all of American history, there are few better examples of how the inventions of man can be used to further the welfare of man than the United States Coast Guard.

During its long history as well, the Coast Guard -- which has contributed so much in so many ways to the growth of American commerce -- has served as an excellent example of that typically American institution -- a public service whose efforts continually nourish and stimulate the progress of private institutions and private enterprise. In recent years we have seen the emergence of vast new fields of human endeavor embracing technology and the engineering sciences in a kind of public and private partnership which is proving our most productive

means of discovering and developing. Atomic energy, space, supersonic transportation -- these are but a few of these fields that hold forth such enormous challenge and promise. And one of the newest and most promising of these fields -- which I will touch on a little later in this talk -- is the field of oceanography, in which the Coast Guard has a very real and growing role to play in the days and decades ahead.

Yet I cannot, as I stand here tonight, contemplate the bright future of the Coast Guard -- or reflect upon its long and great history -- without feeling a great deal of sadness as well as pride. For as you know, the Coast Guard is scheduled for transfer from the Treasury Department to a new Cabinet-level Department of Transportation.

So my appearance here tonight serves as a poignant reminder of the fact that I may well be the last Secretary of the Treasury whose privilege and pleasure it is to oversee the peacetime activities of a Service that was fathered nearly two centuries ago by the nation's first Secretary of the Treasury, Alexander Hamilton -- a Service whose great traditions and illustrious accomplishments have always served as a special source of pride for every member of the Treasury Department.

Because tonight may be my last opportunity -- as a Secretary of the Treasury responsible for Coast Guard activities during peacetime -- to speak publicly here at the Academy, I want to talk about the Coast Guard -- about its past, its present, and its future.

I want, at the very outset, to make clear my firm conviction -- founded upon some five years or so of close association with the Coast Guard, both as Under Secretary and as Secretary of the Treasury -- that, splendid as its past has been, the future of the Coast Guard promises, in every respect, to be even more splendid still. Nor have I any doubt that the remarkable versatility of the Coast Guard, the extraordinary adaptability and uniform excellence it displays in such a variety of fields and functions and under one unified command, shall in the days and decades ahead continue to prove one of its greatest strengths and most invaluable assets as a Service dedicated to the cause of country and humanity.

This great versatility, so apparent in every aspect of Coast Guard activities today, represents the fruition of more than one hundred and seventy five years of growth. First known as the Revenue Marine, later as the Revenue Cutter Service, the Coast Guard was launched in 1790 when the first United States Congress responded to the urgent requests of the young Treasury Secretary, Alexander Hamilton, for "ten boats . . . of from thirty-six to forty feet keel" and "armed with swivels" to enforce the newly enacted Customs laws. Hamilton computed "the first cost of one of these boats, completely equipped" at "one thousand dollars." Ten thousand dollars for ten boats -- that was the modest beginning of the mighty Coast Guard fleet that today patrols our waters -- indeed, that today patrols the waters off the coast of Vietnam.

The first U. S. Congress also accepted 12 lighthouses the colonies had built along the Atlantic seaboard, and set up a Lighthouse Establishment which -- like the Revenue Marine -- was placed under the Secretary of the Treasury. Yet it was not until 1939 that the Lighthouse Establishment became a part of the Coast Guard.

Search and rescue became a formal part of Revenue Cutter duty -- although from the very first Cutter men had gone to the aid of ships in distress -- in 1831 when the Secretary of the Treasury ordered the _Gallatin_ to cruise coastal waters in search of "persons in distress."

Starting in 1848, the Revenue Cutter Service (then called the U. S. Marine Bureau) established Houses of Refuge for distressed seamen along the New Jersey shore. Forty years later -- in 1878 -- this operation became the independent U. S. Lifesaving Service.

Following the purchase of Alaska in 1867, Revenue Cutters were sent to patrol Alaskan waters. In this remote area, the Service became active, first in law enforcement and aid to mariners, then in charting, exploring, sounding and locating fishing areas, in ice-breaking, and finally in administration of the Territory.

Since their invention in 1807, steamboats had been blowing up with frightening regularity. Finally, in 1852 the Marine Inspection Service was established in the Treasury Department -- as an agency apart from the Revenue Cutter Service -- with authority to license engineers and

pilots, and to inspect hulls, boilers, lifeboats, signal lights, and firefighting equipment. After transfer to the Commerce Department, this agency was eventually merged with the Bureau of Navigation to form the Bureau of Marine Inspection and Navigation, which was later transferred to the Coast Guard.

In 1915 -- in a world that technological and political events had begun to make increasingly smaller, in a world that saw pleasure boats multiply, that saw the invention of the wireless and saw on the near horizon the prospects of operational aircraft -- the Congress joined the seagoing Revenue Cutter Service and the shore-based U. S. Lifesaving Service under the name of the United States Coast Guard.

With the rapid advance of technology -- which, along with cataclysms of World War I and II, thrust the United States into the forefront of world affairs and world industrial progress -- the Coast Guard expanded with dizzying speed, assuming broad new fields of responsibility and performing a variety of complex, new tasks.

In 1949, in response to the critical needs to catch up to all these changes -- which for the most part had occurred as the result of emergencies, and inevitably without much design or direction -- the Congress enacted Title 14 of the U. S. Code, which for the first time in history specified the Coast Guard's ". . . responsibilities, functions and spheres of activity."

This was an essential and important step toward insuring the coherent and cohesive growth of the Coast Guard in the years ahead. But as the next decade made clear it was only a beginning.

For while this Act of Congress clearly spelled out Coast Guard responsibility and authority, it left all the details of operation, programing and funding to be worked out by the Coast Guard and the multitude of cooperating agencies throughout the Government. As a result -- when Secretary Dillon took office in 1961, and I joined him as Under Secretary -- we were without the clear overall guidelines essential to making the major policy decisions demanded by the growing breadth and complexity of Coast Guard operations. We discovered as well that Coast Guard

facilities had been deteriorating rapidly, and that replacement had become critical. To correct this situation, and -- for the first time in history -- to define clearly the scope and extent of Coast Guard responsibilities in all areas, Secretary Dillon ordered an exhaustive inter-departmental study of Coast Guard roles and missions. To quote a statement by Secretary Dillon at the conclusion of that study:

> "Ever since assuming my duties as Secretary of the Treasury in January 1961, I have been concerned about the critical problem facing the United States Coast Guard because of the obsolescence of much of its equipment and facilities. A review of long-range requirements for vessels, shore stations, and aircraft indicated a need for a phased program of capital expenditures totaling more than $1 billion in order to provide adequate operating tools for the men of the Coast Guard.
>
> "I concluded that comprehensive study of the Coast Guard's roles and missions, together with a review of existing policy and operational guidelines, would be helpful in deciding our course of action. Accordingly, a study of the Coast Guard's 10 major missions was begun by an inter-agency group composed of experts from the Bureau of the Budget, the Department of Defense and the Treasury Department. This study, lasting 8 months, was concluded in June 1962, and resulted in 80 recommendations. I have now directed that action be taken on 76 of them.
>
> ". . . Some of these actions will be taken immediately; others will take effect only in phases extending over a number of years. The results of the study should prove to be extremely beneficial to the United States Coast Guard and to the people it serves."

The recommendations this study produced were designed to strengthen the Coast Guard's capabilities in carrying out all of its ten major missions. Briefly, those missions are:

1. To maintain the security of the nation's ports in time of war -- and in time of war no domestic consideration is more vital.

2. To maintain full military readiness at all times -- for even in peacetime the Coast Guard must be fully prepared for immediate call to military duty in the event of war.

3. To develop and employ most effectively the most up-to-date aids to navigation.

4. To play an active and major role in the National Oceanographic program.

5. To carry out most efficiently and effectively its responsibility for the enforcement of all Federal laws upon the navigable waters of the United States and its possessions, and on the high seas.

6. To save lives and property on our waters, or off our shores or on the high seas by maintaining the most effective Search and Rescue operations possible -- this is the Coast Guard's primary mission.

7. To maintain ocean stations, which are an important part of our overall national and international effort in communications, safety in sea and air travel, acquisition of scientific data, and national defense.

8. To enforce our laws dealing with safety of our Merchant Marine.

9. To maintain an ample reservoir of skilled reserves to supplement the regular Coast Guard in time of war or national emergency.

10. To maintain its icebreaking operations, which serve not only as aids to commerce and navigation, but as important elements in the oceanographic and other programs.

Simply to cite these ten major missions is to illustrate most graphically how far-reaching and complex the Coast Guard's job is -- and how versatile and invaluable a Service it is.

We see that versatility in what is perhaps the Coast Guard's most unique characteristic -- it is both a military service and a humanitarian agency.

Today, for example, in the coastal waters of Vietnam, the 26 eighty-two foot cutters of Coast Guard Squadron One are helping to bar the movement of men and materials from North Vietnam to communist units in the South.

Squadron One has been in Vietnam since July, 1965. Together with Navy units, it constitutes what is called the Coastal Surveillance Force, and serves to supplement the naval forces of the Republic of Vietnam.

During its more than a year in action, Squadron One has accounted for at least 75 Viet Cong killed, wounded or captured, and has inflicted an unknown number of unconfirmed casualties upon the enemy. It has detained and turned over to South Vietnamese authorities hundreds of suspects. It has destroyed or captured 22 enemy junks, including steel-hulled vessels, and seized or otherwise denied to the enemy weapons, ammunition and supplies upwards of 350 tons. In more than 40 gunfire missions, the Squadron has lent support to friendly forces ashore and has damaged or destroyed numerous enemy structures, fortifications and positions.

The Coast Guard also supervises the loading and unloading of explosives on the docks of Vietnam, and trains Vietnamese to handle this delicate job. It is extensively engaged -- and that engagement is growing -- in furnishing various aids to navigation for the new harbors we are helping the Vietnamese to build.

In short, the active participation of the Coast Guard in the Vietnamese war is great and growing.

In the meantime, here at home and in addition to all its other activities, the Coast Guard is playing a special role in the new national effort to develop a coordinated and comprehensive program covering all aspects of marine science.

The Coast Guard has a natural interest and involvement in shaping the future direction of any national oceanographic program, since for nearly 100 years it has been engaged in specific oceanographic projects. And more recently -- in 1961 -- the Congress authorized the Coast Guard to conduct such general oceanographic research as might be in the national interest. In response, the Coast Guard has expanded both its operations and its capabilities in the oceanographic field.

I had the pleasure and privilege recently of attending the first meeting of the National Council on Marine Resources and Engineering Development -- chaired by Vice President Humphrey and established by the "Marine Resources and Engineering Development Act of 1966" passed by the Congress only three months ago.

That Act -- and I quote -- "declared to be the policy of the United States to develop, encourage, and maintain a coordinated, comprehensive, and long-range program in marine science for the benefit of mankind, including the enhancement of commerce, transportation, and national security and rehabilitation of our commercial fisheries."

In the words of Vice President Humphrey, "This Act reflects an intention not only to nourish our scientific capabilities and maintain U. S. leadership, but also to translate these into an imaginative, productive ocean technology, with an engineering capability to permit operations anywhere in the ocean, at any depth, at any time."

And it envisions the accomplishment of these objectives through the marshalling of all the relevant resources at the nation's command -- in both the private and the public sphere.

What this Act signifies, therefore, is a new national awareness that the vast sea around us, which encompasses 70 percent of the earth's surface, lies largely unknown and unexplored -- that its secrets lie largely unlocked -- and its enormous potential as a source of food, minerals and other resources lies largely untapped. And above all it signifies a new national determination to illuminate the mysteries of the sea, to harness its energies and harvest its resources for our benefit and for the benefit of men everywhere.

Through the progress of recent years, we have the technological tools -- new structural materials, miniaturized electronics, computers, nuclear power, underwater vehicles, and the like -- to enter into a broad, coordinated program of ocean research and exploration that promises -- not only physical and intellectual adventure -- but immense practical results.

There is the promise of great wealth in oil, minerals, and fish -- and of discovering new ways of extracting, expanding and employing these resources.

There is the promise of new knowledge -- which only the ocean can give us -- which will materially advance our ability to forecast, modify and control the weather.

There is the promise of turning salt water into fresh -- and doing it economically and on a large scale.

And these possibilities -- and countless more -- hold forth the further possibilities of new industries and new technologies and new jobs -- of a whole new dimension of human endeavor.

These are the possibilities oceanography presents to us -- possibilities now coming within our reach -- possibilities which the Coast Guard, along with other public and private organizations of many kinds, will help bring to fulfillment in years to come.

These, then -- the Coast Guard's involvement in Vietnam and in oceanography -- are two current examples of how the modern Coast Guard is continuing to carry out, with signal success, its dual mission to help preserve its country's security as well as the safety of human life at sea.

I take great pride in the fact that, as a result of our efforts over the past five and a half years, we in Treasury have played a part in helping insure that success.

One of the Coast Guard's most critical needs when Secretary Dillon and I first came to the Treasury in 1961 -- beyond the need for the study and the actions I have described -- was for physical rehabilitation and modernization. In connection, therefore, with the study

of Coast Guard roles and missions, we developed a series of 10-year physical rehabilitation programs -- touching the entire range of Coast Guard activities. As a result of those programs -- and despite the fact that, because of the Vietnam War, they have been stretched out somewhat -- we are making real progress toward improving the physical capabilities of the Coast Guard.

We at Treasury take pride, too, in the knowledge that we have had a hand in this accomplishment.

It is not hard, then, to understand the profound sense of loss we at Treasury experience when we contemplate the impending transfer of the Coast Guard to another Department. That sense of loss is tempered only by the knowledge that we have had a share, for over a century and three quarters, in the accomplishments that have made the Coast Guard known and honored among men everywhere -- in the knowledge that the Coast Guard will move to the new Department as an entity, that it will preserve the identity and integrity that are the irreplaceable product of its proud past and one of its most indispensable assets as an organization -- in the knowledge that, by our actions over the past five and a half years, as over recent months, we in Treasury have had the opportunity to help insure for the Coast Guard a future in every way worthy of its past.

We know that -- whatever the challenge, whatever the Department to which it is attached -- the Coast Guard will continue to stand as a surpassing example of the way in which skilled and dedicated men can employ the material products of progress -- the technologies and techniques of man's endless invention -- for the welfare of mankind.

oOo

TREASURY DEPARTMENT
Washington

FOR USE SUNDAY NEWSPAPERS
OCTOBER 16, 1966

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT
SAINT PETERS CHURCH, ALBANY, NEW YORK
SUNDAY, OCTOBER 16, 1966, 11:00 A.M., EDT

A question that is frequently put to men or women in public life often goes like this: "What do you do when there is a clear conflict between your moral conviction and your duty to the State?" There is nothing new about the question.

It was propounded 2,000 years ago to Christ himself, and we learn his answer in St. Matthew - Chapter 22: verse 21.

> ".... Render therefore unto Caesar the things which are Caesar's; and unto God the things that are God's."

Like so much of the Christian religion, or for that matter any of the great religions, the intent is clear, but the precise application is difficult. The question: "What is God's and what is Caesar's" must be painfully decided by each human being.

It has been my personal good fortune in seven years of public service to have had very few occasions when this type of conflict rose up before me.

But one of these few occasions was a matter that troubled me very deeply. It is this moral problem in the execution of official duty, and its resolution, that I want to discuss with you today.

Just a year ago at this time I was a member of a small group to whom the President entrusted the question of the Federal Government's authority to prevent racial discrimination in housing.

If you will think back, you will remember that during the campaign of 1960, President Kennedy made the remark that the problem of segregated housing could be abolished by "a stroke of the pen." However, when it came to implementing this promise -- something the late President very much wanted to do -- technical examination of the laws raised many questions. Pending further study, President Kennedy was forced to the conclusion that he could go no further than to issue an Executive Order that would prohibit racial discrimination in housing projects which were financed by the Veterans Administration or by the Federal Housing Administration, that is, housing which was directly financed or insured by the Federal Government. This Order, issued in 1962, covered roughly 20 percent of all the housing that was being built at that time. It did not cover housing that was financed by commercial banks, savings and loan institutions and insurance companies.

Last year, President Johnson asked us to start again from the beginning with the question whether he possessed sufficient authority, under the law, to extend the Executive Order to housing financed by savings and loans and commercial banks whose deposits were insured by the Federal Government.

An extension of the Order along this line would have covered all but some 30 percent of the housing transactions of this country against discrimination.

I can recall no other time in my public career when I entered a research project with such a definite bias. This bias arose from the fact that as a Member of Congress I had been the elected servant of approximately 90,000 Negroes in my Congressional district. I was the one to whom they naturally turned when they had problems. I was the one who could make their voice heard in decisions of the Federal Government. It was this relationship which gave me at least some understanding of the problems they confronted and which brought me to a deep abiding hope that I could help strike down one of the last remaining barriers to a rather complete involvement in the American life by our Negro citizens.

In the Civil Rights Acts of 1957, 1964, 1965, and in the Supreme Court decision of 1954, the nation had gradually moved to give our Negro citizens the right to vote and the right to a comparable education. In the

main, this legislation was directed to practices that existed in the Southeastern part of our country. However, in most parts of this nation our Negro citizens were still denied by practice or by understanding the right to purchase a home in an area of their choice. This last barrier applied to all of us. The guilt of it was equally shared in nearly every section of the country. I felt then -- as I feel today -- that this last barrier is intolerable, and that sooner or later it must be banished from our land. So I must admit that I approached with a deep bias, and an eagerness to right a clear moral wrong -- the task which the President had assigned me.

The legal literature on this particular subject is voluminous. Since 1960 scores of learned legal authorities have probed every facet of the various statutes affecting savings and loans and commercial banks. Men of goodwill, men of wisdom, had taken positions on both sides of the issue. Some argued that the President could by "a stroke of the pen" erase all discrimination against housing that was financed through Federally insured institutions. Others argued with deep conviction that the President would be vastly exceeding his authority if he by-passed the Congress and issued such an executive order. After weeks of careful study and deliberation, our group came to its own conclusion: a reluctant but unanimous agreement that the President's legal authority was dubious at best.

Grasping the nettle, we made our recommendation in favor of a government of laws and against a government of men. We recommended to the President that he propose legislation to the Congress to establish clear legal authority for the Federal Government to ban discrimination in housing.

I was heartsick at this conclusion, because I was fully aware of the political difficulties that were involved in attempting to pass legislation in this extremely sensitive area. And the President was under no illusions on this score. Experience in the State of California during the 1964 election all too clearly indicated the difficulties that lay ahead of this legislative approach.

Nevertheless, the President never hesitated. He made no suggestion that we hedge on our conclusion. Patiently accepting our recommendation, the President requested that we draft the legislation we had said was necessary.

The history of this legislation fully bore out our most dire forebodings. It involved a 12-day debate in the House of Representatives in which at least one crucial vote was carried by a margin of one. However, because of the great courage and great parliamentary skill displayed by both parties in the House of Representatives, this legislation was finally passed by the House by a vote of 259 to 157 on August 9. Few, if any, pieces of legislation have ever posed a more difficult dilemma to men of good will. Many new Members in Congress were convinced that a vote to support this bill would mean their certain defeat, and history may prove them correct.

By summertime 1966, one city after another was experiencing disorders as the moral problem of discrimination took on the immoral aspect of taking the law into private hands. It was with this background that this difficult legislation came to the United States Senate, and the events of the summer had sealed its fate. In consequence, the proposal died in the Senate on September 19.

I was disappointed and grieved, but not surprised, at the outcome. In the succeeding weeks I often asked myself whether we should have cut the corners and told the President that he need not go through this legislative travail but could solve the problem by "a stroke of the pen." But I have concluded that I, for one, would not change that decision. I have concluded this on the grounds that the problem of race, over which this country has agonized far too long, is not amenable to "a stroke of the pen" solution. It is only amenable, in the sense of any permanent and viable solution, to a settlement that is consistent with the basic morality of the nation: the fact that ours is a government of laws. Once we have clear legal recourse, then we should, in my opinion, put the full vigor of the government into just and fair enforcement. To move in this particular area, we must have the consent of the American people, and the basis for that is to be found in agreement in our lawmaking bodies.

So in retrospect, I have concluded on balance that we gave the President correct advice -- even though our advice resulted in a temporary legislative failure.

In this particular situation we in the North do not come off too well. It is one thing for us to lecture our fellow citizens in the Southeastern States; it is quite another for us to face up to the same challenges in our own neighborhoods.

As the President remarked quite simply: "There will be another day."

There _will_ be another day!

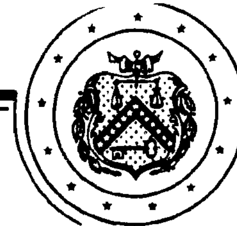
There will be other debates. We will be faced again with decisions in this area of intolerance. I hope you will forgive me if I pay the following tribute to the President whom I have served during his entire tenure. He has shown us the way toward the viable solution of this particular problem. You take no short cuts beyond the law. You look for no gimmicks. You throw your trust on the constitutional processes of this nation. You press your fight as skillfully as possible in the country and in the Congress. And you trust to the basic morality of the American people to acknowledge the problem. Then, under our democratic processes, you use the full powers for leadership of the Federal Government to mobilize the moral force of the American people to bring about an early and clearly constitutional decision.

So, in this great problem of housing, we will "render unto Caesar" by adhering to Caesar's laws. We will press the fight through the legal framework of legislative reform and not through a quasi-legal "stroke of the pen."

And this will make it possible to "render unto God the things that are God's": with your help we shall fight for racial equality, for this is surely one of "God's things."

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 14, 1966

FOR IMMEDIATE RELEASE

ROBERT J. MOODY RECEIVES TREASURY AWARD

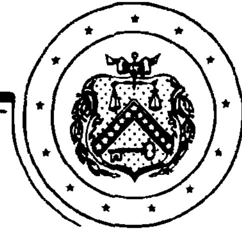
Robert J. Moody, who is leaving the Treasury Department today to become Director of Taxes for the FMC Corporation, San Jose, California, has been presented the Office of the Secretary Honor Award by Secretary of the Treasury Henry H. Fowler.

During the past 15 months, Mr. Moody has been a Special Assistant to the Secretary and Director of the Treasury's Executive Secretariat, the central coordinating staff serving top Treasury officials. The award was in recognition of Mr. Moody's outstanding contributions to the Department.

Mr. Moody, 38, an attorney, was born in New York City and is a graduate of Washington and Lee University and Indiana University Law School. He also holds a Master of Laws degree from Wayne State University. Mr. Moody previously was on the staff of the Joint Internal Taxation Committee and served in the Office of the Chief Counsel of the Internal Revenue Service. From 1955 to 1961, he held a number of positions with the Chrysler Corporation.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 14, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON STEEL WELDED WIRE MESH UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that steel welded wire mesh for concrete reinforcement from Italy is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. A "Notice of Intent to Discontinue Investigation and of Tentative Determination That No Sales Exist Below Fair Value," was published in the Federal Register on August 5, 1966, stating that price revisions with respect to steel welded wire mesh for concrete reinforcement imported from Italy were considered to be evidence that there are not, and are not likely to be, sales below fair value.

The merchandise under consideration consists of lightweight concrete reinforcement mesh for buildings.

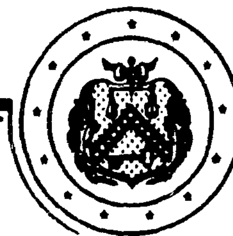
The complainant submitted a written request for an opportunity to present views in person in opposition to the above-mentioned notice. The opportunity was afforded to the complainant, and all interested parties of record were notified and were represented at the hearing.

All written and oral argument presented in opposition to such notice were given full consideration.

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

Imports of the involved merchandise received during the period September 1, 1964, through June 30, 1966, were valued at approximately $775,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, October 17, 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 July 21, 1966, and the other series to be dated October 20, 1966, which were offered on October 11, 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 January 19, 1967		:	182-day Treasury bills maturing April 20, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.635	5.400%	:	97.152	5.633%
Low	98.626	5.436%	:	97.137	5.663%
Average	98.629	5.424% 1/	:	97.143	5.651% 1/

63% of the amount of 91-day bills bid for at the low price was accepted
28% of the amount of 182-day bills bid for at the low price was accepted

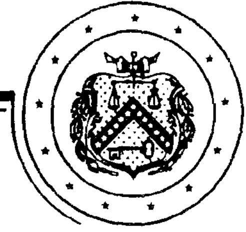
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 21,899,000	$ 11,899,000	:	$ 22,812,000	$ 12,812,000
New York	1,621,581,000	876,641,000	:	1,277,580,000	672,757,000
Philadelphia	34,279,000	16,999,000	:	15,785,000	7,785,000
Cleveland	28,795,000	27,910,000	:	34,035,000	23,635,000
Richmond	25,243,000	19,743,000	:	11,957,000	10,907,000
Atlanta	50,709,000	31,179,000	:	41,836,000	21,336,000
Chicago	279,520,000	103,860,000	:	247,879,000	138,869,000
St. Louis	68,708,000	47,608,000	:	48,462,000	19,762,000
Minneapolis	17,523,000	12,468,000	:	13,605,000	11,605,000
Kansas City	26,325,000	26,288,000	:	19,480,000	19,480,000
Dallas	27,811,000	17,811,000	:	17,446,000	17,446,000
San Francisco	236,086,000	108,576,000	:	145,735,000	43,650,000
TOTALS	$2,438,479,000	$1,300,982,000 a/		$1,896,612,000	$1,000,044,000 b/

a/ Includes $283,602,000 noncompetitive tenders accepted at the average price of 98.629
b/ Includes $189,965,000 noncompetitive tenders accepted at the average price of 97.143
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.58% for the 91-day bills, and 5.90% for the 182-day bills.

F-664

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 18,1966

The attached Memorandum for President Johnson from Secretary of the Treasury Henry H. Fowler, was distributed by the White House Press Office on Sunday, October 16, 1966.

oOo

FOR IMMEDIATE RELEASE OCTOBER 16, 1966

Office of the White House Press Secretary

THE WHITE HOUSE

MEMORANDUM FOR THE PRESIDENT
FROM SECRETARY FOWLER

Before your departure to Southeast Asia to consider regional reconstruction and development in that area, you wanted an up-to-date report on the economic and financial situation at home.

A review of the most recent developments leads me to conclude that the United States economy is in healthy and robust condition. There are some imbalances, but measures designed to correct them have been mounted.

The economy can absorb the reasonably foreseeable demands of the Viet-Nam conflict and essential civilian needs within the framework of a free market economy -- without resort to the harsh economic controls that have characterized past wars.

As a former Director of Defense Mobilization during the Korean conflict called in one year after that war was under way to help administer all the paraphernalia of limited mobilization, I am struck by the present record. It is one of remarkable achievement in which both government and the private sector can take considerable satisfaction. This situation reflects the ability of our people to adapt to shifting needs -- to make effective use of the nation's productive capacity to meet changing and enlarged requirements. It also reflects the prudent adaptation of monetary and fiscal policies which have dampened inflationary forces and minimized the inevitable imbalances that characterize a market economy operating under heavy and shifting pressures. One of these adjustments -- in residential construction -- has been too drastic -- but both legislative and administrative measures have been taken recently to ease this special problem.

You will recall that our recent assessment of the economy led to your September 8 recommendations, to supplement our earlier anti-inflationary actions. Congress is nearing enactment of its part of this program. The impact of the total program has already been felt, particularly in relaxing the strain on our money markets and maintaining confidence that the economy is moving into less turbulent waters.

America's capacity to produce, combined with the demonstrated determination of the Administration to pursue healthy growth and reasonable price stability, is continuing to pay off:

-- The $13.7 billion rise in gross national product during the third quarter extended the period of solid advances scored during the current, record-breaking expansion. But it also reflected a welcome moderation from the feverish rate of late 1965 and early 1966 that produced both imbalance and excess demand with their accompanying price pressures. At a more sustainable pace we are still surpassing most of the other industrial countries not only in the total value of production and incomes but in the real rate of growth as well. Corporate profits and personal income -- both before and after taxes -- continue to rise extending the most steady, sustained increase in modern times. After-tax household income is seven per cent higher than a year ago, generating a substantial rise in real purchasing power.

-- Unemployment rates have been at or below four percent every single month this year.

-- Our continued increases in capital facilities, skilled manpower and productivity have made it possible for us to shoulder the burdens of Viet-Nam without giving up rising living standards or measured advances to our social goals. Our strong, stable rate of growth should continue during 1967, enabling us to meet our responsibilities both at home and abroad without undue strain.

-- Our recent price performance shows encouraging signs. The index of raw materials prices, which moves far in advance of wholesale and consumer prices, has dropped thirteen percent since March. Wholesale industrial prices have held steady since July. The rise in wholesale food prices has been reversed in recent weeks. These developments should be favorably reflected in consumer prices in coming months.

Despite the added demands of Viet-Nam with their psychological unsettlement, price stability during the present expansion is superior to that of the longest expansion of the 1950's, 1954-57, when there was no conflict or dislocation resulting from war. The average level of consumer prices during that period rose excessively but these jumps would have been still higher had it not been for declines in farm products and foods. During the current expansion, consumer prices rose less, even though this time we were absorbing increases in farm and food products.

Our record of price stability in the fact of the impact of active hostilities and persistently enlarging defense needs is the envy of nations throughout the world. Indeed, a major part of the consumer cost of living increases has not resulted from inflation in our industrial economy but from the adjustment upward of the income of those who have worked the land and provided services at income levels well below those in the industrial sector.

-- Even with ever-higher wage incomes, rising productivity has resulted in stable labor costs per unit of output in manufacturing during the current expansion, in sharp contrast to the 1954-57 period when these costs rose strongly.

Thus, the ability of American industry to compete in international markets, shackled by rising production costs built in during the mid-1950's, has been set free during the 1960's. Merchandise exports have grown every year since 1960 and are continuing to expand, while there was no net growth at all between 1957 and 1960.

Despite the substantially increased foreign exchange costs of our military expenditures associated with the enlarged activity in Southeast Asia, we are holding our balance of payments deficit to the reduced level of 1965 which was half the average of the preceding years.

Early indications are that the balance of payments results in the third quarter will be even more encouraging. However, this is a sector of our financial life which will require the closest continuing attention and effort. We cannot afford increased foreign exchange burdens and must constantly seek arrangements for our external activities that will minimize cash outflows and enable us to regain the equilibrium that is basic to a stable world monetary system so dependent on the dollar.

-- The decline in stock market averages appears to reflect more the conditions of money and credit, the very attractive yields on debt securities, and uncertainties over the course of events in connection with developments relating to Viet-Nam, than a pessimistic economic outlook generally.

-- The over-all level of interest rates, which had risen so sharply this year, has recently eased. Longer term Treasury, corporate and municipal bond interest rates have declined from the high levels reached in August.

-- Looking ahead, the nation need not fear recession when Viet-Nam hostilities come to an end. It can look forward to continuing overall economic growth.

Sources of increasing demand are clearly observable. In the private sector they are derivative from increasing personal income, more jobs, and rising population in the family-forming sector, and surging plant and equipment requirements responsive to a burgeoning technology that calls for a continuing modernization as well as expansion in capacity. Moreover, a resurgence in residential housing should follow easier monetary policy and the dip in housing. The outlook for increased state and local expenditures is clear. You are familiar with the need to hold back and defer worthwhile federal expenditures which can be released after the termination of major hostilities.

Moreover, tax reductions can be employed to offset reduced military expenditures and help keep demand growing in line with our productive capacity. The percentage of GNP devoted to Viet-Nam expenditures is much smaller than was the case during World War II and Korea, assuring a much easier transition period. Therefore, peace in Viet-Nam can lead to even greater progress in living standards.

I am pleased to report, therefore, that the national economy is vigorous and thriving. But we must continue our unceasing vigilance to guard against any development of imbalances. We must continue to foster appropriate policies in keeping with national economic requirements, including tax, budgetary, and monetary policy changes if excessive inflationary or deflationary tendencies become evident.

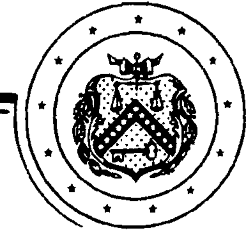
Particularly, the federal budget on the national income and product accounts basis -- our best measure of the economic impact of fiscal policy -- should continue -- as long as there are inflationary threats -- as it has this year, to remain in balance or in surplus.

In addition to avoiding excessive or deficient demand, economic stability and continued prosperity will require the earnest efforts of those responsible for price and wage determination to avoid the cost-push inflation that can arise not from excessive demand, but from excessive greed and abuse of monopolistic power.

I am firmly convinced that the economy possesses the capacity and the health necessary to continue rapid and stable growth under our free enterprise system without resort to the rigidity of over-all controls which we have successfully avoided.

# # #

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 19, 1966

FOR IMMEDIATE RELEASE

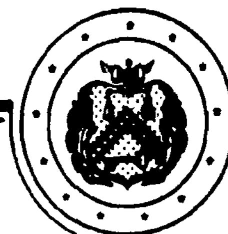
WITHHOLDING OF APPRAISEMENT ON
TUBELESS TIRE VALVES

The Treasury Department is instructing customs field officers to withhold appraisement of finished tubeless tire valves from Italy 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. This withholding order will apply to importations entered, or withdrawn from warehouse, for consumption after publication of the order, which will appear in the Federal Register in the near future.

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 April 26, 1966. This information was the subject of an "Antidumping Proceeding Notice" which was published on page 9751 of the Federal Register of July 19, 1966, pursuant to section 14.6(d), Customs Regulations.

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 19, 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 October 27,1966, in the amount of $2,301,043,000, as follows:

91-day bills (to maturity date) to be issued October 27, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated July 28,1966, and to mature January 26,1967, originally issued in the amount of $1,001,781,000, the additional and original bills to be freely interchangeable.

182 -day bills, for $1,000,000,000, or thereabouts, to be dated October 27,1966, and to mature April 27,1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, October 24, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the 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-665

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 October 27, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 27, 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 from any Federal Reserve Bank or Branch.

oOo

TREASURY DEPARTMENT
Washington

FOR USE AT 7:00 P.M., EDT
THURSDAY, OCTOBER 20, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT
THE ANNUAL DINNER OF THE ANTI-DEFAMATION LEAGUE
NEW YORK HILTON HOTEL, NEW YORK, NEW YORK
THURSDAY, OCTOBER 20, 1966, 7:00 P.M., EDT

A PROGRAM FOR A NEW STEP FORWARD IN REALIZING THE AMERICAN DREAM

I count myself privileged to be here this evening as the guest of the Anti-Defamation League, whose members have contributed so much over so many years to the recognition of man's inherent dignity. Your fine work for the past 50 years in fighting discrimination through education is well known. Therefore, I can think of no more appropriate group with which to discuss the prospects and perils we face in our present efforts to build a Great Society that must inevitably rest upon and draw its strength from that same human dignity.

What is it that we have been trying to accomplish here in this country over the past 200 years, if it is not the extension to all our citizens of the basic rights that man's dignity demands? We have been striving from our beginnings to build an entirely new kind of society in which the road to advancement is open to all -- a society based on an 18th Century revolution that was unique in history because it did not require for its success or survival the sacrifice of any class, the destruction of property rights, or the separation of any segment of its people from the protection of the law.

What emerged from the American War for Independence was the world's first society truly open to the fulfillment of its people's potential. The remarkable array of dissenters who created this new polity deliberately left open to dissent the entire political spectrum -- from the conservatism of

Hamilton who sometimes doubted the wisdom of the people, to the liberalism of Jefferson who mistrusted the power of government. And in so doing, they released the extraordinarily creative genius of the American people, freed it to explore every channel of innovation in their political, social and economic order.

Today, under our 36th President, we are still carrying forward the unfinished business of that Revolution; we are still searching out new ways to enlarge the American Dream of a society fully open to the full potential of all its people.

The Great Society toward which President Johnson leads the nation today is yet another step forward in the creative process that began two centuries ago. Now, in this generation, we are struggling for new forms of freedom -- freedom from war and poverty and sickness and ignorance.

Now we are fighting to do away with the degradation of racial discrimination, to end the human and economic waste of involuntary poverty, illiteracy and avoidable illness. Now we are calling on our creative genius to raise the quality of American life, renew the beauty of the land, and clear the poisons from its air and waters.

All this is in the realm of the possible, if man can now find the means to free himself from the threat of war that shadows these tragic times.

President Johnson is in the Far East tonight, exploring still another avenue of honorable peace, in the certain knowledge that without peace all prospect of real human betterment is a mirage.

In the President's own words, we seek peace not alone for ourselves but for all peoples everywhere, East and West, North and South, for the communist world as well as for the non-communist world. And we will persevere in that quest.

We have no illusions about the price we must pay for this creative 20th Century Revolution that we call the Great Society. It will be costly in terms of our human resources, and it will test the private and governmental strengths of our society. But the cost is well within our reach and the attainment of our goal will enrich us beyond measure.

It is a demonstrable fact that we can safely undertake the enormous tasks we have set for ourselves, at home and abroad, without straining our economy to the breaking point. The partnership in economic responsibility that has been built up between your government and the private sector during the past five years shows clearly that we can generate the productive and economic growth that will be needed to pay as we go for all our programs.

The successful experience of that partnership during the prosperous and productive 1960's proves beyond all reasonable doubt that we possess the resources, the capacity, and the institutional genius to fashion a steady sustained economic advance.

We stand today in a position of very great strength, far stronger than many of our fellow-citizens seem to realize.

Before his departure to Southeast Asia to consider regional reconstruction and development in that area, I reported to the President, that:

-- a review of the most recent developments leads me to conclude that the United States economy is in healthy and rebust condition;

-- that there are some imbalances, but measures designed to correct them have been mounted, and,

-- that the economy can absorb the reasonably foreseeable demands of the Vietnam conflict and essential civilian needs within the framework of a free market economy -- without resort to the harsh economic controls that have characterized past wars.

Here are some up-to-date readings on the current state of the economy:

-- Personal Income after taxes; up 6.5 percent from a year ago, and up 43 percent from five and a half years ago, in early 1961. Real Personal Income -- disposable personal income adjusted for price changes -- up 3.3 percent from a year ago and up 32 percent from 1961.

-- Manufacturing Wages; up 4.2 percent from a year ago, and up 18.8 percent from early 1961.

-- Corporate Profits, after taxes; up 11.2 percent from a year ago, and up 99.6 percent from 1961.

-- Dollar value of Gross National Product: up 8.7 percent from a year ago, and up 48.1 percent from 1961. Real Gross National Product -- The increase in output of goods and services -- up 5.2 percent from a year ago, and up 34.8 percent from 1961.

-- Employment; up 2.4 percent from a year ago, and up 11.1 percent from 1961.

-- Unemployment; down 11.1 percent from a year ago, and down 38.4 percent from 1961.

The fact is that the American people and the American economic structure are substantially better off than they were just a year ago, and incomparably better off than when we embarked on this expansion program in 1961.

And the second equally important fact is that we have been thoroughly alert from the very beginning to the probability that the very success of our expansionist policies would, at some point, necessitate counter-measures to moderate the advance and prevent inflation.

We did not happen in a fit of absent mindedness upon the choice of economic policy that helped bring us to our present high level of prosperity. This carefully balanced range of economic policy drives took into account the contingencies that might develop when we reached a stage, as we did of relatively full employment and full use of our productive capacity.

We did not suddenly discover the threat of inflation last night or last month, as some would have you believe. Following the inauguration of a more restrictive monetary policy last December, there was a series of fiscal steps beginning in January to bring about a measured cooling off of excessive demands upon our economy. Federal measures are siphoning off $10 billion of excess purchasing power in this calendar year through additional Social Security and Medicare taxes, by deferring planned reductions in excise taxes on automobiles and telephone service, by graduated withholding of income taxes, and by a speed-up in corporate tax payments.

More recently, the President announced a $3 billion cutback in low-priority federal spending, and he has asked State and local governments to take similar action. He has also recommended temporary suspension of special tax incentives originally authorized to stimulate private business expansion, and Congress has accepted this recommendation.

The prudent use of economic policies, flexible in method but firm in purpose, produced remarkable results in stimulating the American economy throughout the 1961-65 period. Applied now as a moderating influence, these policies have begun to ease the inflationary pressures and level out the inevitable imbalances that are bound to occur in a free market economy stretched out to capacity and distorted by war.

Let us see, very briefly, what has happened to create a need for restraint, and what that restraint is accomplishing.

During the eight quarters preceding the President's announcement of July 28,1965 that the United States would have to step up its defense of freedom in Vietnam the nation had enjoyed a generally smooth and evenly phased expansion, averaging about $11 billion per quarter.

Under the material and the psychological impact of the military build-up for Southeast Asia, the quarterly expansion jumped to nearly half again what it had been, to an average of about $16 billion per quarter. This has used up a major share of the country's then unemployed and under-utilized productive capacity and has placed the economy under inflationary strains.

As a result of the change of economic policies from stimulation to restraint, we have returned to much more moderate rates of gain: $11.1 billion and $13.7 billion respectively in the past two quarters. This is a more sustainable pace.

This cooling down is beginning to have its effect on the price structure. The price of raw materials, for example, has dropped 15 percent since last March. Wholesale industrial prices have been stabilized since July. And wholesale food prices have turned down in recent weeks, which should have a favorable effect on the cost of living in the months ahead.

It is notable also that the easing in price pressure has been accompanied by a modest drop in interest rates from the high level of late August and early September and that, despite the direct and indirect foreign exchange drain of the extensive military operations in the Far East, we have succeeded in holding our international balance of payments deficit to the 1965 level, which was about half that of the preceding five years.

Taken with the fact that unemployment has been held at or below 4 percent of the working force in every single month of 1966, the record certainly demonstrates that we are successfully maintaining our forward progress. We are in the stage of moderate restraint, but we are neither static nor in retreat. We are continuing to move ahead.

To get a valid measure of our present position, it might be well to look back and see how far we have come. At the beginning of the current expansion, in early 1961, our economy was emerging from its fourth post-war recession. Unemployment was intolerably high. Business investment had for years lagged far behind the rate needed to generate vigorous growth and to protect our competitive position in world markets. At the same time, a series of balance of payments deficits averaging more than $3-1/2 billion a year for three years had left the dollar vulnerable and threatened the international monetary system which the dollar supported.

Prices had remained relatively stable since 1958, but not as a result of positive and productive growth. The nation had bought that price stability at the sacrifice of our other major goals -- economic growth, and full employment. In the process a serious disequilibrium in our international balance of payments had developed. The price stability of that period was an anemic stability not an indicator of economic health.

In 1961 we set out to fashion a new mix of economic policies that would enable the nation to move forward simultaneously toward the separate but inter-related goals of price stability, full employment, economic growth, and international exchange equilibrium.

We rejected then, and we reject now, the notion that these goals are inherently incompatible and that to secure one or two of them we would have to sacrifice the others.

But we also recognized then, as we do now, that conflicts between those goals could arise -- that we might well come to a point where it would be difficult to pursue full employment and price stability at one and the same time, a point where success on one front might seem to involve falling back or slowing down on another.

And that is exactly why our first fiscal measures at the beginning of this expansion centered upon encouraging productive new business investment. It was felt that investment in larger and more modern capacity would not only stimulate employment and growth but would also bring about the greater productivity and lower costs so essential to continued price stability and to progress in meeting our balance of payments problem.

Those measures were accompanied by a pioneering program of training and re-training for unskilled and semi-skilled workers that would make them more employable and more productive. From the very beginning there was awareness that the nation would one day arrive at the stage where growing demand alone could not continue to reduce unemployment without undermining our productive efficiency or straining our price stability. As a result of efforts in this area, over the past five years,

beginning with the landmark Manpower Development and Training Act of 1962, there is now underway the most massive attack ever mounted on the problem of structural unemployment.

At the same time that we employed those dual measures -- aimed specifically at insuring both greater growth and greater productivity -- a dual approach was adopted on the overall economic level. On the one hand, we sought to increase demand in the private sector of the economy, through massive and across-the-board income tax reductions. On the other, through the wage-price guideposts, we sought to encourage voluntary wage-price restraint within the context of our free enterprise system.

The end result was both rapid and real economic growth, that is, rapid growth of actual production of goods and services. And today, when voices are raised to demand that those guideposts be abandoned, it might be well to have a clear understanding of how much the nation's economy progressed so long as wages and prices were reasonably geared to the guideposts.

Let me just cite a few relevant statistics which the guidepost critics frequently find it convenient to ignore. During the five years from 1961 to 1965, nearly all of which were covered by the guideposts, corporate profits after taxes rose about 65 percent from $27.2 billion to $44.5 billion. In the previous five-year period, when we had no guideposts, corporate profits after taxes fell by 2 percent, from $27.2 billion to $26.7 billion.

And in the same five years before the guideposts, employee compensation rose about 20 percent, from $243 billion to $294 billion, which would appear to be a healthy increase until you compare it with the 30 percent jump in employee compensation that occurred during the five-year guidepost period -- from $303 billion to $393 billion.

Even more remarkable is the behavior of prices. During the five years before the guideposts, when unemployment was increasing and our industrial plant was slowing down, consumer prices rose by about 9 percent. But during the five guidepost years, when the trend in unemployment and industrial production had reversed, prices rose by only three-fifths as much, or by 5-1/2 percent.

As a result, price rises cancelled out almost half of the workingman's gains in the 1956-60 period, so that in real terms his compensation went up by only about 11 percent. In the 1961-65 period, on the other hand, the rise in employee compensation far exceeded the consumer price rise, so that the worker actually gained more than 20 percent in real spending power.

What those comparisons make vividly clear is the fact that the wage-price guideposts, or something like them, must occupy an important place in any successful effort to secure real growth in the economic abundance we share today. Paradoxically, restraint is a most important part of our progress.

The record of the 1960's is one of remarkable progress toward the simultaneous attainment of the four paramount goals I have mentioned: economic growth, reasonable price stability, full employment and equilibrium in our international balance of payments.

No great and free people in all history has ever come so close to the attainment of such ambitious goals. Shall we then build upon the policies that have brought us within reach of them? Or shall we revert to the timid and demonstrably ineffectual policies of the more distant past? Would we, for example, accept a high rate of unemployment and an inadequate rate of economic growth for the sake of price stability? Would we abandon stability and balance of payments equilibrium for the sake of marginal increases in employment and growth?

To ask these questions is to answer them. Throughout the past five years we have consistently refused to bargain away one or another of our goals at the expense of the others.

Our task today is the same as it has been all along: to sustain our progress on all fronts. But today, as you know, that task has been made more difficult and more delicate by the added demands of the Vietnam conflict on an economy already close to full employment and full production.

The present situation is unique and was quite unforeseeable. When we charted our original course, we contemplated a peacetime economy, and thoughts of a country engaged in hostilities on the present scale were far from our minds. But hostilities can cut ruthlessly across many plans and procedures designed to meet the problems of a nation at peace. We are deeply committed to an extensive military operation in Southeast Asia which shows no signs of early termination.

The economic impact of Vietnam is in no way comparable to the vastly greater and different strains imposed by the Korean War, but nevertheless its effect is clearly evident and it has introduced a large element of uncertainty into our situation. And it has heightened the pressures on interest rates, prices and wages.

While the price and interest picture is somewhat more reassuring than it had been earlier in the year, there can be no denying that it remains a matter for concern. Cost-of-living increases particularly create pressures for larger wage increases which could indeed upset the stability that has been maintained in the unit labor costs of manufacturing industries.

Whether industrial management and labor have the understanding and self-discipline to face and solve this problem will have an important bearing on the future course of our economy and on the fiscal and monetary policies of your government.

Public fiscal and monetary policies will fail in maintaining stability unless businesses and unions carry their full burden of responsibility for avoiding inflationary price and wage rises.

We have set our sights high -- higher than any other nation has ever dared to do. But in the past six years we have come a long, long way toward the realization of our national potential.

What we are discovering is the fact that the society of fully open opportunity brought forth in America in 1776 has profound economic as well as political consequences; it is the high road to durable prosperity and strengh for individuals and for the nation -- when the goals of a Great Society are honestly and comprehensively pursued.

In the pursuit of the further implementation of the great American ideal of a society open to the fullest realization of the potentials of all its members we in this country are doing more, in more ways, to make more lives better than have all the great revolutions of the past put together.

Nor have we hoarded up the benefits to ourselves only. We have used our economic might to create a military shield which helps not only the United States but people in many parts of the world to fashion their own destinies according to their own national determination.

What we in America have accomplished is the product of a creative society, capable of mending its defects and regenerating itself, and gifted with a unique capacity for cooperative action by the public and private sectors.

The plain historical truth about the American society is something all too often forgotten by the latter-day Cassandras.

This truth, evident to anyone who will look without bias at our history is that cooperative, public-private action is in the oldest American tradition. Alexander Hamilton, who preceded me in my present office by some 175 years, was properly recorded as a political economist who saw his problem as one of using the fiscal and monetary powers of the new Republic to promote national security and growth. And his successors of various political bents used

fiscal policies, tariff regulation, and the financing of roads, canals and railroads to play a central role in the great age of business expansion that marked the first two-thirds of the 19th century.

What distinguishes our experience from that of others is the fact that in this country the Government has always, as it does today, used its economic policies to strengthen and perpetuate private enterprise, not the contrary. We had no overall economic scheme, no five-year plans, no explicit national targets for production and consumption. But at an early time we did adopt national policies deliberately intended to promote national development through the joint efforts of the people and their Government.

This has resulted in the evolution of a free enterprise system operating in an openness completely unknown to the Old World, an economy thrown open to every kind of stimulus, ready to exploit every sound suggestion for change and improvement. There has emerged a productive fruitfulness that has made the American standard of living a wonder to the world, standing half again as high as its nearest competitors in the better-developed countries, Sweden, Switzerland and Canada, and twice as high as the per capita product of such other industrialized countries as France, Britain, Belgium, and West German.

In the course of this progress, and contributing enormously to it, came successive waves of immigrants from other lands, most of them completely alien to the original British inheritance of the Colonies.

Our nation made of each wave of newcomers a new source of strength, even though each wave had to strive for acceptance from those already benefitting without special restraints from American opportunity. Let us not forget that it was not long ago that the sign "No Irish Need Apply" hung in the streets of Boston, as well as on Pennsylvania Avenue. But they were integrated as were, before or after them, the German, the Scandinavian, the Jewish and the Slavic immigrants who today give America the unexampled richness of its culture and its talent.

Now, the latest "outsider" is rapping at the gates, asking for its rightful share of the American heritage. And the present Administration, under the inspiring leadership of President Johnson, is leading the nation in obtaining full acceptance for the American Negro, in seeing to it that the Negro and his children receive the benefits of the Great Society which they have merited, and that America receives from its Negro population the nation's rightful, and far too long denied, heritage of culture and talent lying fallow in these citizens.

If the case for the American Negro rested on humanitarian, moral grounds alone, that would be more than sufficient to warrant his entry into full American citizenship.

But to those who would deny such moral justification, let me point out the enormous material benefits that will accrue to our society, and not just to the Negro, when we open fully the doors of equal opportunity to the American Negro. It is the same story that has been told a dozen times before as the nation has reaped the benefits of opening its doors to the hungry, the poor, the cast off, who composed our previous waves of immigrants.

The 21 million Negroes in the United States today spend over $27 billion in the marketplace each year, despite the fact that their incomes lag far behind those of white families and their unemployment rate is almost twice the national average.

Measured in dollars and cents alone, the price the nation pays for the lack of economic opportunity for the American Negro is a staggering one. He represents a potential market of $50 billion or more for the goods and services of American business and a wealth of unused talents, skills, and energies for our society. In a very real sense, the Negro market is perhaps the last frontier of American expansion, the last of our great untapped resources.

The task of training and retraining unskilled Negro workers, of educating Negro youth for rewarding careers, is huge in magnitude. But can we honestly afford to waste the human talents, the latent abilities that lie hidden in the Negro slums of our cities today? The Johnson Administration's massive program to uncover and utilize the potential of the

American Negro is not simply an act of charity or welfare, but a practical effort in the oldest American tradition that will repay the whole American society over and over again for generations to come.

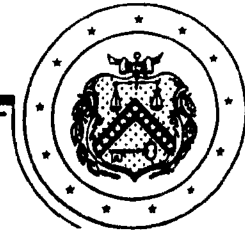
President Johnson's ideal of a Great Society is a bright link in the chain of progress that began with our first creative revolution almost 200 years ago. Were we not to continue forward toward that realization, we would in a very real sense be betraying our history. We would be turning our backs on the overwhelming evidence of our past that it is the opportunity our society offers for each American to achieve his own potential, that set this nation apart from every other nation.

The Great Society is a program to enlist the talent and the energies and the devotion of all Americans, without any remaining exception, and keeps the doors of opportunity equally open to the legitimate aspirations of every American, without any remaining exception.

With the help of fine organizations like the Anti-Defamation League, which has long worked in this field, and the responsible support of all our fellow-Americans, we shall achieve it.

o0o

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 19, 1966

FOR IMMEDIATE RELEASE

TREASURY'S MONTHLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,400,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing Octover 31, 1966, in the amount of $999,948,000, as follows:

273-day bills (to maturity date) to be issued October 31, 1966, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1966, and to mature July 31, 1967, originally issued in the amount of $994,844,000, the additional and originial bills to be freely interchangeable.

365-day bills, for $900,000,000, or thereabouts, to be dated October 31, 1966, and to mature October 31, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Tuesday, October 25, 1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. (Notwithstanding the fact that the one-year bills will run for 365-days, the discount rate will be computed on a bank discount basis of 360 days, as is currently the practice on all issues of Treasury bills.) It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on October 31, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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 from any Federal Reserve Bank or Branch.

F-667

TREASURY DEPARTMENT
Washington

FOR USE IN AFTERNOON NEWSPAPERS OF
FRIDAY, OCTOBER 21, 1966

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE
THE HOME BUILDERS STATE ASSOCIATION OF IOWA
ANNUAL CONVENTION
IN
THE ROOSEVELT HOTEL, CEDAR RAPIDS, IOWA
FRIDAY, OCTOBER 21, 1966, AT 12 NOON, CDT

The American economy, now in its longest peacetime period of expansion in our history, is in healthy and vigorous condition.

Our gross national product -- the measure of goods and services produced throughout the nation -- rose $13.7 billion in the third quarter of the year to its new all-time high: a seasonally adjusted annual rate of $746 billion, according to the preliminary Department of Commerce estimates.

This advance was greater than the $11.1 billion second quarter increase but substantially less than the $16.8 billion rise in the first quarter of the year. We believe the trend is definitely toward a rate of growth which the economy can sustain under stable conditions.

During the third quarter of the year, personal income rose to an annual rate of $585 billion. This was an increase of $11.5 billion from the second quarter, an advance that was equal to the average of quarterly gains over the past year.

When you compare those figures with our gross national product of $504 billion in 1960 and personal income of $401 billion in 1960, you readily see just how healthy and vigorous our economy is.

By any broad measure -- farm income, which rose 23 percent last year and has moved on to higher ground this year; corporation profits after taxes, which are nearly double what they were in 1960; to cite two examples -- our economy is demonstrating remarkable strength and resilience.

But there are some soft spots, as you know better than most. To speak in broad terms again, there are three clearly discernible areas of pressure in the economy and the financial system:

-- in the money and financial markets, excessive demands for credit, together with monetary restraint, have created severe tightness and a sharp rise in interest rates, with an unfortunate and highly selective impact on several sectors, particularly single-family housing;

-- in the market for capital goods, the ever-mounting flow of new orders by business firms, coming on top of an unprecedented rate of outlay for plant and equipment, is pushing up prices and wages, creating shortages of some skilled labor, and adding sharply to the large demands for capital from banks and the securities market;

-- the demands of our commitment to the defense of freedom in Vietnam have been rising.

There is a close relationship among these three sources of pressure:

Higher defense spending generates credit demands -- by the government itself and by private firms which receive government orders and work on borrowed funds to fill new contracts.

Tight money itself causes additional government spending, particularly to help finance areas of important economic activity -- such as homebuilding -- from which the supply of private capital has been diverted.

To be more specific, our banks this year, in order to meet the heavy business demand for loans, have bid up the interest rates on certificates of deposit very aggressively. Commercial bank loans to business rose at an annual rate of 19 percent in the first eight months of this year.

Meanwhile business borrowing has been exerting a substantial direct impact in the capital markets. Net funds raised through corporate bond issues were at an annual rate during the first half of this year that was 80 percent heavier than in 1965.

In this entire process, interest rates on Treasury issues and other securities have risen. In late August and early September, many interest rates reached their highest levels since the 1920s.

This is not to say that business borrowing has been the only source of pressure on the markets. But it has been a very prominent one. Treasury borrowing has not been a major factor. Increased Federal agency borrowings and sales of participations in pools of direct government loans did exert some pressure. But much of the increase in agency debt during the first half of this year reflected borrowings to fill credit needs in the mortgage area.

For surely the most unfortunate effect of the tightness in the money market has been the smaller supply of funds available for the home mortgage market. Governor Maisel of the Federal Reserve Board has likened the situation to the old game of "crack-the-whip." As the financial market has responded and adjusted to shifts in credit expansion, the flow of funds has varied among institutions and they, in turn, have altered their commitment policies. The mortgage market has stood at the end of the financial line. Pressure has increased as it passed down the line, and the effect at the end of the "whip" has been drastic.

We find that we have solved the problems of a sluggish economy, which required so much of our time and energy a few years ago, only to face a whole new set of problems that prosperity has brought with it.

As President Johnson observed last January, "We have learned how to achieve prosperity ... now we must sustain it, deal with its problems, and make the most of the opportunities it presents." That is what we are trying to do.

The condition we face is that of an economy operating very close to the limits of its productive powers. Putting it another way, to continue under the pressures I have cited would be to try to do too much, too fast.

On September 8 President Johnson announced a program designed to exert a moderate restraint on the economy at the pressure points -- to reduce our rate of expansion to a sustainable level. Here are the main points of the program:

First, the President promised strong measures to reduce lower priority Federal expenditures.

When we take account of the needs of defense and other amounts in the fiscal 1967 budget which are fixed by law or otherwise uncontrollable, we find that only about $31 billion is actually subject to direct Presidential control.

Our best present estimate is that a reduction of some 10 percent -- about $3 billion -- will be required from that part of the budget. Realistically, of course, we cannot determine the exact amount that can be cut in that limited portion of the budget until we have analyzed all the appropriation bills passed by the Congress.

Although the costs of the Vietnam conflict are uncertain, to be on the safe side and to insure adequate support for our men there, we must take account of the likelihood that we will have to order additional material and equipment for our defense of freedom in Southeast Asia.

Federal civilian agencies have been directed to defer, stretch out, and otherwise reduce contracts, new orders, and commitments. Each major agency has been given a savings target, with orders to meet that target.

But, in a time when individual incomes and corporate profits are at record heights, the President does not intend that these economies be made at the expense of programs for alleviating poverty, ill health, and inadequate education.

Both justice and sound economic considerations require that we do not allow inflation to levy its pernicious tax on the American people or on their business activities. But those same considerations demand that we do not avert inflation at the expense of the young, the old, the ill, and the deprived by denying them their chance for education, health, opportunity, and security.

Second, the President recommended that the Congress suspend the 7 percent investment tax credit, making it operative again on January 1, 1968.

Our machinery and equipment industries cannot digest the demands currently thrust upon them. There has been a ten-month average backlog on machine tool orders alone. On many machine tools, the order backlog has exceeded 15 months.

Our capital markets are clogged with excessive demands for funds to finance investment. These demands bid interest rates higher and higher and draw too large a share of credit from other important uses.

Temporary suspension of the investment credit will relieve excessive pressures on our capital goods producers and on our financial markets. Our high-employment, high-profit economy will still provide abundant incentive for growth in capacity sufficient to produce the goodswe need, to modernize facilities, and to maintain a strong international competitive position.

Third, the President recommended that the Congress suspend until January 1, 1968, the use of accelerated depreciation on all buildings and structures started or transferred after a cut-off date.

The reasoning here was the same: we must not give a reward in the form of a tax advantage to investment which contributes to the pressures on the economy.

Fourth, the President asked the Federal Reserve Board, in executing its policy of monetary restraint, to cooperate with him and the Congress to lower interest rates and to ease the inequitable burden of tight money. He called on our large commercial banks to join in this effort.

Fifth, the President disclosed that we in the Treasury were reviewing all potential Federal security sales and would take action to keep them at the minimum in the months ahead.

In those five points the President mobilized the resources of the Federal government to relieve inflationary pressures in the economy.

But he went still further, calling on the entire nation to act responsibly to preserve the prosperity we all share and enjoy.

He called on the banks to allocate credit fairly and without extracting excessive profits. He urged them to rely less on high interest rates to price some borrowers out of the market and to rely more on placing of appropriate ceilings on credit.

He called on the Federal Reserve Board and the entire financial community to seize the earliest opportunity to reduce interest rates while allocating existing supplies of credit more equitably.

He called on business to base their credit demands on genuine needs rather than on speculation about future scarcities or higher costs.

He also asked business to set prices on the basis of real costs, rather than building into them the assumption of future inflation.

He called on labor to avoid wage demands that would raise the average level of costs and prices and to adopt work rules and standards for entry into its trades that are appropriate for a full-employment economy.

He also asked labor to cooperate with business to raise productivity, so that pay increases will be matched by increases in production.

That is the President's anti-inflation program, in brief. I am pleased to be able to report that, in addition to work already underway on reduction of expenditures, which I mentioned earlier, we have made important progress on all the other points of the program. Foremost, of course, is the fact that the Congress has passed the legislation requested by the President to suspend the investment credit and accelerated depreciation.

Turning to interest rates and the money situation, the Congress has passed and the President has signed a bill giving more flexible powers to our monetary authorities to set interest rate ceilings on consumer savings accounts.

The three regulatory agencies with responsibilities in this area -- the Federal Reserve Board, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation -- have moved promptly to make good use of that authority. The Federal Reserve Board and Federal Deposit Insurance Corporation have reduced existing interest rate ceilings on consumer savings deposits. The Federal Home Loan Bank Board has established a ceiling rate for the first time. The response of the financial community to those measures has been favorable.

We have also made progress in reducing and rearranging government borrowing requirements. We are going to meet remaining needs without requiring the private market to take up <u>additional</u> securities from Federal agencies.

Federal Reserve actions have been coordinated with the program in order to gain the greatest effect in reducing interest rate pressures. The result of all this activity is that we have seen a decline in long-term Treasury, corporate, and municipal bond yields since the highs that were reached in late August.

I want to stress the specific ways in which these and other activities of the Administration have been brought to bear against the tightness in the home mortgage market:

<u>First</u>, the promptness of the monetary authorities in establishing interest rate ceilings. Their action is already moderating the escalation of interest rates and permitting larger savings flows to institutions which specialize in mortgage financing.

<u>Second</u>, the Federal National Mortgage Association has continued its secondary market purchases at a substantial rate during the last half of calendar 1966. Fannie May's secondary market purchases totalled a record $1.3 billion in the first half of the year.

<u>Third</u>, we have obtained legislation enlarging the borrowing authority of the Federal National Mortgage Association, so that Fannie May can continue to carry out its secondary market operations and provide funds for additional mortgage activity.

<u>Fourth</u>, the Federal Home Loan Bank Board has been able to obtain sufficient funds to provide net advances of about $1.5 billion this year to savings and loan associations, which are, of course, a major supplier of mortgage market funds.

The benefits of these and many other efforts by the Johnson Administration to the mortgage market and the home-building industry constituted a principal underlying factor in the generally optimistic outlook in the report on the state of the economy which Secretary of the Treasury Fowler sent to the White House shortly before the President's departure on his Asian trip.

Of course, there is no way of knowing whether the program the President announced on September 8 and the other actions of his Administration will be sufficient to avert further inflationary danger. As he pointed out in outlining his program; and I quote:

> "Decisions made elsewhere will influence our defense needs in Vietnam. Because we cannot control or predict these outcomes, we cannot blueprint our fiscal measures in the months ahead. But should additional fiscal measures be required to preserve price stability and maintain sound fiscal policies, I will recommend them."

And, I will add, only time will tell whether further action will be necessary. Certainly, the prospect for improvement is very good under the program going into effect now.

We know, of course, that not all of the President's proposals are popular in all circles and fields of activity. There has been vigorous dissent, for example, with the proposals to suspend the two tax incentives, the investment credit and accelerated depreciation.

The President had a clear idea of what the reaction might be when he made his recommendations. But he made them anyway, because he knew the economy -- and our prosperity -- required them.

Let me quote him briefly just once more:

> "By continuing on a prudent course in our private and public policies and by preserving our capacity for stable economic growth, we can look forward to continuing progress. We can make that

> progress within the framework of a free economy. We do not want to resort to controls. If we take the necessary actions, next year should bring new heights in consumer living standards, in savings for the future, in our progress toward the Great Society."

In a time of adversity, it is not always easy to look ahead. But we must keep on looking ahead. The curtailment of expansion in mortgages this year is a short-run phenomenon. It is in sharp contrast to most of our post-war experience. It is not consistent with any of our expectations for the coming years.

With our expanding population and our great need to improve housing throughout the nation, housing demand and the importance of mortgage funds are sure to increase.

A recent study by the National Planning Association suggests that in 1975 the American nation's expenditures for housing should reach an annual rate of $62 billion if we are to meet our housing goals. That figure is in 1962 dollars. It is more than double -- actually 111 percent -- of our actual spending for housing in 1962.

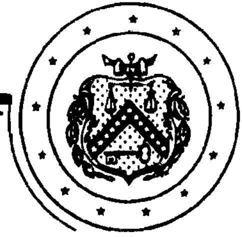
Another National Planning Association study predicts that it will take $2.1 trillion over a 20-year period to make our cities "viable" places to live. A great deal of that sum must go for housing. There have even been suggestions to create as many as 1,000 "new cities" all over the country. These would be modern cities, designed for Twentieth Century America and located where people would enjoy living. The housing construction involved in such a scheme excites the imagination.

Neither I nor anyone else can predict that the United States will follow such a plan. But I can predict that the trends already well-established -- the trend of home ownership, the trend toward realization of each family's aspiration for better housing, the tend of urban expansion, the trend of renewal in the heart of our old cities, the upward trend in personal income -- will continue.

The concept of the Great Society embodies a firm belief in the need for better housing. Meeting that need will be your task in our society and economy, tomorrow just as it is today.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 19, 1966

FOR IMMEDIATE RELEASE

TREASURY APPOINTS SPECIAL CONSULTANT TO THE SECRETARY FOR SAVINGS BONDS PROMOTION

Secretary of the Treasury Henry H. Fowler today announced the appointment of James S. Fish as Special Consultant to the Secretary for Savings Bonds Promotion.

Mr. Fish is Vice President for Advertising and Marketing Services of General Mills. He will serve on a part-time basis, without compensation.

Mr. Fish will help prepare a stepped-up 1967 Savings Bonds campaign. He will provide Secretary Fowler with advice on marketing procedures, advertising and promotional activities. He will also act as liaison between the Treasury Department and the Advertising Council, which helps promote national causes. He will work closely with the Treasury's Savings Bonds Division headed by William H. Neal.

In announcing the appointment, Secretary Fowler stressed that: "The Treasury wants to increase Savings Bonds sales primarily by increasing the total amount of savings, rather than by attracting a bigger share of the existing amount of savings into Savings Bonds. Thus, the Savings Bond product and campaign -- marketing, promotion and advertising -- must be designed to accomplish this dual purpose. The reason for this approach is that we need additional savings to help contain inflationary forces."

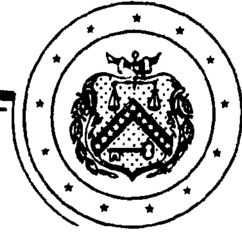
The Savings Bonds program is now in its 26th year. There are now outstanding almost $50 billion in Savings Bonds.

Mr. Fish was born September 8, 1915, in Mt. Pleasant, Iowa. He was graduated from the University of Minnesota in 1937 with a B.A. degree. He later took graduate courses at Northwestern University's School of Business Administration.

Mr. Fish served in the U.S. Navy from 1943 to 1945. He is married to the former Dorothea Merritt of Minneapolis, Minnesota. They live at (108 Chevy Chase Drive) Waysata, Minnesota. They have three children.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 21, 1966

FOR IMMEDIATE RELEASE

TREASURY DECISION ON CEMENT
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that white portland cement from Japan, manufactured by Onoda Cement Co., Tokyo, Japan, is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. A "Notice of Tentative Determination," was published in the Federal Register on July 30, 1966.

White cement is used instead of gray cement where the purity of color is a paramount consideration.

The complainant submitted a written request for an opportunity to present views in person in opposition to the tentative determination. The opportunity was afforded to the complainant, and all interested parties of record were notified and were represented at the hearing.

All written and oral argument presented in opposition to the tentative determination were given full consideration.

Imports of the involved merchandise received during the period March 1, 1965, through August 31, 1966, were valued at approximately $608,000.

TREASURY DEPARTMENT
Washington

FOR USE AT 11:00 A.M., EDT
SATURDAY, OCTOBER 22, 1966

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE
THE BUSINESS COUNCIL
AT
THE HOMESTEAD, HOT SPRINGS, VIRGINIA
SATURDAY, OCTOBER 22, 1966, 11:00 A.M., EDT

Were this the October of, say, 1957, or 1958, or 1959, or 1960, I doubt that there would be a single economic observer, of whatever persuasion, who could look back at the performance of our economy since July of last year and assess it as anything less than the most spectacular in our entire economic history in terms of its combination of strength, of stability and of freedom from excess or imbalance.

And were it the October of 1951, or 1952, he would have to regard it as the most remarkable fact of all -- absolutely without parallel in the history of this or any other nation -- that we achieved this extraordinary strength and stability in the framework of a free market economy -- free of the harsh economic controls on prices or wages or resources that have characterized past wars -- even though we were involved in a sizable war overseas.

As a former Director of the Office of Defense Mobilization and a former colleague of many of you on the War Production Board, I know you share my view that this is a remarkable achievement in which both government and the private sector can take considerable pride.

I propose such a perspective, not because we have no problems, for we have some very real problems. I propose it because I feel we often become so absorbed in these problems that they seem to us far larger than they really are.

We cannot ignore the problems of the past year, some of which are still with us today in varying degrees -- reflected in the price trends of the last year or so, in the excessive exuberance of the capital goods sector and excessive weakness of the housing sector, and inflationary pressures of both the demand-pull and cost-push varieties. But to exaggerate them can be equally as harmful as to ignore them.

So today I would like to try to take a balanced, and brief, look at some of our major areas of economic concern -- areas of concern to you and I, and to all Americans.

We have to begin, I think, by understanding several very simple -- but very basic -- facts about our economy today and over recent months.

One of these facts is that we are operating virtually at levels of full employment of both manpower and industrial capacity -- goals we have been striving toward for decades and whose accomplishment presents us with an entirely unprecedented set of problems.

Another is that, while our economy does exhibit distortions that rightly engage our concern, these distortions have two remarkable characteristics. The first is that these distortions are far less than one might have expected in a full employment economy which bears the burdens of a large conflict abroad, and does so without the application of Government controls.

The second is that, because our economy is so robust and resilient, there is not on any horizon we can now foresee the slightest prospect that controls will be required. On the contrary, we have every reason to expect that together government and the private sector can handle any current, or currently conceivable, problem within the framework of a free market economy.

Where, then, do we stand?

In July of last year -- when the President asked Congress for additional defense funds for Vietnam -- we stood in the 52nd month of the longest peacetime expansion in our history. During that period, our real Gross National Product had grown by about one-fourth. That added growth -- that

expansion in our real national output -- is equal in amount to the total real national output, for all of 1965, of France and Italy combined. Unemployment had fallen to 4½ percent from a 7 percent high in early 1961. The average operating rate of our industrial capacity had risen to 90 percent from a recession low of 78 percent in early 1961. Average consumer prices were only 6 percent higher than they were in early 1961 -- and prices of nonfood commodities were only 3 percent higher. And on the average whole prices for manufactured finished products were less than 1 percent above the level at the start of the expansion.

That progress, as you know, was very largely the result of a fiscal policy which combined substantial Federal tax reductions -- both to increase overall private demand and to heighten incentives for new and productive business investment -- and a tight rein on the growth of Federal expenditures.

In mid-1965, therefore, we seemed on the threshold of an entirely new era of economic experience -- an era of unparalleled peacetime prosperity, at full employment and with stable prices. The prospect was that we would enter this era gradually, and our purpose was to insure that we did so.

But with the intensification of hostilities in Vietnam, the tempo picked up sharply. Partly through the impact of additional defense spending -- but even more, I think, through the impetus of the bullish psychology engendered by this new turn of events -- our economy began to climb steeply.

GNP had been advancing for eight quarters at an average rate of $11 billion per quarter -- but between the second quarter of 1965 and the first quarter of 1966 it rose by a quarterly average of $16 billion. Our annual rate of real growth rose to an astounding 7.2 percent. Unemployment fell swiftly -- in February dropping to 3.7 percent, the low point of our expansion thus far.

Faced with the danger of excessive economic exuberance -- and taking into account the actions of the Federal Reserve Board early last December -- we shifted from a stimulative fiscal policy toward one of moderate restraint. Through

that shift, as President Johnson has pointed out, we have siphoned off $10 billion of excess purchasing power from our economy during this calendar year:

-- $6 billion through increased payroll taxes for social security and medicare.

-- $1 billion through restored excise taxes.

-- $1 billion through graduated withholding of individual income taxes.

-- $1 billion through a speed-up in corporate tax payments.

-- $1 billion through an administrative acceleration of tax payments.

In addition, throughout this calendar year the Federal budget on the national income accounts basis -- our best measure of the economic impact of fiscal policy -- has been in surplus or in balance.

On an overall basis, the impact of these measures has been by and large what we hoped and expected it to be -- in the last two quarters our economy has advanced at a more moderate and sustainable pace.

The $13.7 billion GNP rise during the third quarter -- and the $11 billion rise in the second quarter -- not only extended the pattern of solid advances that has characterized the current, record-breaking expansion, but also reflected a welcome moderation from the feverish rate of late 1965 and early 1966 that produced both imbalance and excess demand with their accompanying price pressures. At a more sustainable pace we are still surpassing most of the other industrial countries both in the total value of production and incomes and in the rate of real growth. Corporate profits and personal income -- both before and after taxes -- continue to rise and thus to extend the most steady, sustained increase in modern times. After-tax household income is seven percent higher than a year ago, generating a substantial rise in real purchasing power.

But while on an aggregate basis we had achieved satisfactory progress, by the beginning of September it became clear that we had to act to relieve several specific pressures that threatened to develop into severe economic distortions. These pressures were making themselves felt in three basic areas of our economy:

-- in our money and financial markets, where the combination of excessive demands for credit, monetary restraint and high interest rates has had little or no impact on our booming capital goods sector while all but choking off the flow of funds to our housing industry.

-- in our market for capital goods, where the ever mounting flow of new orders by business firms coming on top of an unprecedented rate of outlays for plant and equipment is generating rising prices, rising wage rates and shortages of some skilled labor as well as swelling already large demands for capital from our banks and security market.

-- the rising rate of total government expenditures -- Federal, State and local -- highlighted by steadily expanding defense and public works outlays, which is rapidly adding to overall demand.

On September 8, as you know, President Johnson announced a program specifically designed to alleviate the pressure in all of these three areas.

That program included:

1. An urgent call to the Federal Reserve Board and our large commercial banks to follow the actions of the Administration and the Congress -- both in the fiscal area and in the credit area -- to do all they can to lower

interest rates and "ease the inequitable burden of tight money." The Congress, as you know, has enacted legislation aimed at halting excessive interest rate escalation in the field of consumer savings. And the Administration has taken several steps to lighten as much as possible the burden of Federal finance on our money markets.

2. A strong program for further reductions in lower priority Federal expenditures.

3. The temporary suspension of the 7 percent investment tax credit for machinery and equipment and of the option to elect accelerated depreciation on buildings.

As everyone here knows, I have been a strong exponent of the investment credit, having worked strenuously to secure its original enactment in the Revenue Act of 1962, along with the administrative liberalization of depreciation.

Our experience to date has justified the faith I had in 1961-2 in the efficacy of the investment credit, and my belief that it should become a permanent part of our tax structure. Since then industrial production has increased three times as fast as in the previous decade, real business fixed investment has increased nearly four times as fast, and our economic growth generally has far surpassed its previous rate. This remarkable achievement is not solely the result of the investment credit, but I firmly believe the investment credit has contributed substantially to it. Moreover, looking to the long-term future I am convinced that the encouragement provided to business by the credit to modernize and expand its use of capital equipment is essential to maintaining full employment with stable prices, and to keeping our industry competitive with foreign goods. The President and his Administration fully share these views.

It was therefore, only after very careful study and with great reluctance that we reached the conclusion that suspension of the investment credit is an appropriate measure at this time. I stress suspension -- and not repeal -- since the credit should be regarded, as President Johnson's Message indicated, as an essential and enduring part of our tax structure.

The investment credit is a basic part of our tax system that should be suspended only in times of active hostilities at least on a scale such as characterizes the present situation. Even under such circumstances, I would, as I have made clear in the past, be chary of suspending the investment credit unless the combination of a rapidly expanding civilian economy and increasing and special defense needs made this course compelling. I am opposed to treating the investment credit as a counter-cyclical device, to be suspended and restored with the normal ups and downs in our economy.

The present situation is unique and was quite unforeseeable when the credit was adopted and stress was put -- and properly so -- on its permanent character. We then contemplated a peacetime economy and thoughts of a country engaged in hostilities on the present scale were far from our minds. But hostilities can cut ruthlessly across many plans and procedures designed to meet problems of a country at peace. We are deeply committed to an extensive military operation in Southeast Asia which shows no signs of early termination. Its effects on our economy are clearly evident. We are also confronted with a monetary situation of almost unparalleled tightness, which is producing distortions in our economy and the highest levels of interest rates in more than 40 years.

Early in the year when the question of suspending the credit was raised in the Senate, we hoped that this change in the law could be avoided. In March the President invited to the White House more than 100 chief executives of companies which, together, are responsible for making a large portion of business plant and equipment outlays. At that dinner the President made a strong personal appeal to those present to carefully review their investment plans with the objective of screening out and setting aside for deferral whatever projects and expenditures they possibly could. Many of the executives did just that and wrote letters to the President confirming their plans to moderate their investment outlays.

Nevertheless, the level of investment in both plant and equipment has remained too high under present circumstances and it is taking place despite sharp increases in interest rates paid by corporate borrowers which some thought would restrict capital expenditures. Undoubtedly the increase would have been larger without the influece of the

President's appeal for restraint. But, according to the latest Commerce-SEC Survey -- made public in early September and based on reports from business in late July and August -- plant and equipment outlays for this calendar year were still expected to rise by the 17 percent forecast in the spring. This made clear the need for temporary suspension of special investment incentives, including accelerated depreciation as well as the investment tax credit.

We expect that this program -- along with all the other measures we have adopted -- will help to remove some of the pressures that have contributed to the 3½ percent rate of price increase we have experienced over the past year at both wholesale and retail. That rate of increase is larger than we can tolerate over any extended period -- and, in the year ahead, it must be a major goal of both public and private economic policy to restore reasonable price stability.

At the same time, it is important that we keep these price increases in proper perspective. For example, during the year that ended this July, consumer prices increased by 2.8 percent and wholesale prices by 3.4 percent. Yet these were smaller rises than we experienced between, say, July 1956 and July 1957 -- a period of expansion during which we were not involved in any hostilities abroad.

Or to take a more current, and even more cogent, comparison: our record of consumer price stability from the first half of 1965 through the first half of this year is matched by only two other major industrial nations in the Free World -- France and Italy. Yet both France and Italy have been able to dampen their rate of consumer price increase only by retarding their rate of growth. Moreover, both countries rely heavily upon direct controls to hold down the rise in the cost of living. Italy, for example, controls 80 percent of rental prices included in its cost of living index. And France exerts surveillance and control over a wide range of consumer prices.

My point is simply that -- while we must do all we can to return to the levels of price stability we experienced earlier in this decade -- the price rises we have thus far experienced have not been unduly damaging.

In fact, our recent price performance shows encouraging signs. The index of raw materials prices, which moves far ahead of wholesale and consumer prices, has dropped thirteen percent since March. Wholesale industrial prices have held steady since July. The rise in wholesale food prices has been reversed in recent weeks. And these developments should be favorably reflected in consumer prices in coming months.

We must also recognize that a major part of the consumer cost of living increases has resulted, not from inflation in our industrial economy, but from the adjustment upward of the income of those who have worked the land and provided services at income levels well below those in the industrial sector.

Even with ever-higher wage incomes, rising productivity has resulted in stable labor costs per unit of output in manufacturing during the current expansion, in sharp contrast to the 1954-57 period when these costs rose strongly.

Thus, the ability of American industry to compete in international markets, shackled by rising production costs built in during the mid-1950's, has been set free during the 1960's. Merchandise exports have grown every year since 1960 and are continuing to expand, while there was no net growth at all between 1957 and 1960.

I want to stress as well the very simple fact that -- in the framework of a free market economy, which we now have and which we are all determined to preserve and to further -- the responsibility for price and wage stability rests primarily upon the shoulders of our businesses and our unions. And the greatest single threat to price stability remains a regression to the self-defeating practices of earlier decades when the various sectors of our economy tried to seek gains at each other's expense -- instead of working together, as they have throughout most of this decade, to enlarge the share of each by enlarging the share of all.

In recent months, as you know, the wage-price guideposts have been favored with numerous obituaries. I think we in the Administration would be the first to admit they are far from perfect. But I have yet to see a better method proposed -- consistent with our free enterprise system -- for expressing the imperative public interest in the price and wage making processes of our economy, and for emphasizing the fact that any short-run gains that may come

from excessive wage settlements or unwarranted price rises -- or from a failure to translate reduced costs into reduced prices -- are very quickly wiped out by the cumulative inflationary pressures these excesses and failures set in motion.

It may well be that, in the months ahead, further restraints will be required in Federal fiscal policy. I cannot -- and will not -- speculate on what further fiscal steps we might take.

As Chairman Ackley of the President's Council of Economic Advisors recently declared, the goals for fiscal policy in 1967 are very clear.

First, we must maintain the growth of real GNP in line with the growth of our capacity to produce -- which means a real annual rate of about 4 percent.

Second, we must do all we can to slow down the rate of price increase and return to price stability as rapidly as possible.

Third, we must do all we can to relieve the current distortions in our economy -- which lie principally in the capital goods, housing and financial sectors.

Although specific measures can help achieve these results, the most fruitful approach would seem to be to shift the mix of policy so as to permit some easing of monetary policy.

Already there has been some response to the shift in policy mix embodied in the President's Message of September 8. The overall level of interest rates, which had risen so sharply this year, has recently eased. Longer term Treasury, corporate and municipal bond rates have declined from the high levels reached in August.

And I assure you we will do all we can and must do to achieve these goals. As President Johnson put it in his Message of September 8.

> "Decisions made elsewhere will influence our defense needs in Vietnam. Because we cannot control or predict these outcomes, we cannot blueprint our fiscal

> measures in the months ahead. But should additional fiscal measures be required to preserve price stability and maintain sound fiscal policies, I will recommend them.
>
> "By continuing on a prudent course in our private and public policies and by preserving our capacity for stable economic growth, we can look forward to continuing progress. We can make that progress within the framework of a free economy. We do not want to resort to controls. If we take the necessary actions, next year should bring new heights in consumer living standards, in savings for the future, in our progress toward the Great Society."

Looking ahead, the nation need not fear recession when Vietnam hostilities come to an end. It can look forward to continuing overall economic growth.

Sources of increasing demand are clearly observable. In the private sector they come from increasing personal income, more jobs, and rising population in the family-forming sector, and surging plant and equipment requirements in response to a burgeoning technology that calls for a continuing modernization as well as expansion in capacity. Moreover, a resurgence in residential housing should follow easier monetary policy and the dip in housing. The outlook for increased state and local expenditures is clear. And there is an ample amount of worthwhile federal expenditures now held back and deferred which can be released after the termination of major hostilities.

Moreover, tax reductions can be employed to offset reduced military expenditures and help keep demand growing in line with our productive capacity. The percentage of GNP devoted to Vietnam expenditures is much smaller than was the case during World War II and Korea, assuring a much easier transition period. Therefore, peace in Vietnam can lead to even greater progress in living standards.

Our success in meeting the challenges before us on the domestic economic front is, as you know, essential to our success in meeting the challenges before us in the international economic and financial arena. Earlier this morning, Secretary Connor discussed with you some of our problems and prospects in our balance of payments.

Time does not permit a thorough analysis here today of the other elements of our program to improve the Free World system of financial and economic cooperation, to which our balance of payments is importantly related.

But may I note that there are at least four related areas of economic negotiation and policy in which developments in the year ahead will be crucial: trade in the Kennedy Round; aid to the less developed countries particularly through the multi-lateral institutions such as the World Bank, Inter-American Development Bank, and the new Asian Development Bank to be formally organized in Tokyo in late November; the development of adequate capital markets in the developed countries; and international monetary reform.

We in the United States are proud of our initiatives and national contribution in the last twenty years in these areas. We believe their spirit, their motivation and their scale serve to give a measure of what must exemplify the role, not just of the United States, but of other nations individually as they regain and achieve strength and stature, and of our family of free nations all together, if international economic and financial cooperation is to assume ever greater dimensions that are required for the last half of this century.

The recent meeting of the International Monetary Fund and World Bank in late September marked very real progress in one of these vital areas.

We are about to enter the second stage of negotiations aimed at improving international monetary arrangements -- following the successful conclusion of the first stage, last July at The Hague, when the Ministers and Governors of the Group of Ten announced agreement on basic points of contingency planning for the deliberate creation of international reserves.

Nearly all the Governors who addressed the Bank and Fund meeting last month endorsed the creation of such a contingency plan -- with the outright opposition from only two countries, France and Chad. The Managing Director of the IMF, Mr. Pierre-Paul Schweitzer, recommended a series of joint meetings of the Executive Directors of the IMF and the Deputies of the Group of Ten, on the creation of such a plan, and such meetings have been scheduled.

This second stage of negotiations would thus include representation of the full membership of the International Monetary Fund -- as well as of the members of the Group of Ten. It is our earnest hope that these negotiations will result in the development of a specific contingency plan for deliberate reserve creation in time for presentation at the next annual meeting of the Bank and Fund.

In the months ahead, the United States will continue its efforts to bring these negotiations to a successful and timely conclusion -- as well as to secure all possible progress in improving international cooperation in aid and trade, together with a better working of the adjustment process in international payments balances.

In the international economic and financial area, therefore -- as in our domestic economy -- we are meeting the problems and challenges before us. And I have every confidence that we will continue to meet them, with good success, in the year ahead.

oOo

TREASURY DEPARTMENT
Washington

REMARKS BY SECRETARY OF THE TREASURY HENRY H. FOWLER
AT THE BUSINESS COUNCIL MEETING, OCTOBER 22, 1966,
IN RESPONSE TO ENQUIRES ON THE TREASURY'S POSITION ON
THE INTEGRATION OF PRIVATE PENSION PLANS
WITH SOCIAL SECURITY.

Considerable misunderstanding seems to have arisen about what the Treasury and the Internal Revenue Service had in mind last month in publishing a notice requesting background information for our use in developing a formula applicable to those pension, annuity, profit sharing, and stock bonus plans which are integrated with the old age and survivors insurance benefits provided under the Social Security Act. An "integrated plan" is one that takes into account Social Security benefits.

As you know, our Income Tax Regulation in accordance with the standards of the Internal Revenue Code have, for some years, contained a formula which employers must follow in designing such plans. Each time there are significant changes in the Social Security law, it is necessary for us to re-examine this formula, since it is closely tied to the Social Security benefits and wage base.

Let me illustrate. The present Treasury Regulations reflect the Social Security provisions prior to the 1965 changes. Under these regulations a private pension plan may provide employees with a pension equivalent to 37.5 percent of their wages or salary over $4,800 without providing any pension benefits based on the first $4,800 of wages and salary.

The basis for this is that the employer is considered to be providing an equivalent benefit on the first $4,800 of wages through the Social Security system -- hence the private plan is considered to be "integrated" with the Social Security system. This formula is based on the amount of wages subject to the Social Security tax, the level of Social Security benefits, and the portion of those benefits which are considered to be acquired through the employer's contribution.

The Social Security amendments of 1965 raised the maximum amount of wages subject to Social Security tax from $4,800 to $6,600 and, in addition, made very significant changes in both the contribution and benefits structure of this program. This made it necessary for us to re-examine the existing formula covering these integrated plans.

It would appear that extending the old formula on a mathematical basis to the new situation would involve significant new effects. Therefore, we decided to seek the ideas of business and labor, and all other interested parties in this area. The Revenue Service consequently asked last month for information on the costs and other effects that may be involved, and for any fresh ideas.

Let me make it clear that illustrations set out in the Revenue Service's announcement seeking information and comments are not a Treasury proposal. In fact, the Treasury has no proposal. We will have none until we get considerably more information upon which to base sound judgments.

The Revenue Service has twice postponed the date for the submission of comments. The new date is November 30. The background information we have requested will be evaluated carefully. We will then be in position to issue a Treasury proposal. As is customary, suitable time will then be allowed for comment.

Meanwhile, let me commend the business community for its spirit of cooperation. If you have not already done so, now is the time for you to ask your experts to take a careful and objective look at this matter. I would emphasize that we are seeking constructive ideas and careful analyses of alternative possibilities. We welcome the attention you are giving to this matter, and that you will give it. We will give thoughtful consideration to the material we received.

oOo

TREASURY DEPARTMENT
Washington

FOR USE IN AFTERNOON NEWSPAPERS
OF MONDAY, OCTOBER 24, 1966

REMARKS OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE
THE 18TH ANNUAL
INTERNATIONAL MUTUAL FUND DEALERS CONFERENCE
IN
THE SHERATON-PARK HOTEL, WASHINGTON, D.C.
MONDAY, OCTOBER 24, 1966, AT 11 A.M., EDT

As we enter the last months of this year, it is natural to turn our attention to economic and financial prospects in the year to come. Already the private forecasting season is in full swing, and before too long the Administration will be completing its own appraisal, which in due course will be reflected in the President's Economic Report, in the Budget for fiscal 1968, and in the Administration's legislative program.

Needless to say, I am not here in October to unveil the Administration's fiscal plans for the coming year. I do want to review some past developments with you, because I think it may help to explain "why" if not "what" we will be recommending in the fiscal area.

By July, 1965, the economy had completed its 52nd month of expansion, the longest in our peacetime history.

You will recall that a new emphasis on investment incentives had begun in 1962 with the investment tax credit and the administrative liberalization of depreciation. The more active use of fiscal policy was carried a step further in 1964's general tax reduction, whose overwhelming success was soon demonstrated. A burdensome legacy of wartime excise taxes was successfully pruned, demonstrating in the process the ability of Congress to move promptly on tax legislation.

This more active use of fiscal policy was coupled with a generally expansionary monetary policy -- but a monetary policy that was always closely responsive to the emerging

needs of the balance of payments situation. Most remarkable of all, the steady expansion of the 1960s occurred within the framework of cost-price stability, whereas the intermittent expansions of the 1950s -- as in the case of most of our previous experience -- had been marred by rising costs and prices.

I would like to read an appropriate passage here from the Economic Report of the President. 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 guideposts. 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.

They reflect a searching for a technique which ultimately resulted in the wage-price guideposts established during the Kennedy Administration and carried forward with substantial if not unbroken success during the Administration of President Johnson.

As a result of the much better cost-price record in the 1960s, steady progress was made toward our full employment goals. For example, between the second quarters of 1963 and 1965, real output grew at an average annual rate of more than 5-1/2 percent and the over-all unemployment rate declined from 5.8 percent to 4.7 percent.

The economy was able to expand in real terms at rates of 5 percent and more by putting to productive use not only new capacity and new entrants into the labor market, but also idle capacity and the unemployed. Consequently, the rate of expansion in output was somewhat above the 4 percent or so that is our estimated potential when resources are fully employed.

But the rate of expansion was by no means excessive. Fiscal and monetary policy were consciously employed to maintain a rate of expansion high enough to reduce unemployment, yet not so high as to disrupt the environment within which cost-price stability had flourished. The Administration's wage-price guideposts became a significant factor encouraging noninflationary wage bargaining and pricing policy.

Cost-price stability was required not only to avoid domestic inequities and imbalances, but also to preserve and strengthen an international competitive position that had suffered in the 1950s. I will not take the time today to review the Administration's continuing effort to bring our international payments into secure balance. However, I do want to emphasize the striking gains that have been achieved by President Johnson's voluntary balance of payments program initiated in early 1965.

In the second quarter of 1965, our accounts swung into substantial surplus on both the liquidity and official settlements definitions. Indeed, the $904 million annual rate of surplus, on the liquidity basis, was the largest such quarterly surplus since 1957. While there were some special favorable nonrecurrent causes, the fact remains that just prior to July 1965 we were in clear sight of payments balance.

In short, at mid-1965, economic and financial policy were successfully attuned to the needs of both the domestic and international situations. However, my seven years in public service have taught me an inescapable fact of life: the solution of one set of problems, the attainment of a particular goal, usually uncovers a whole new group of perplexing issues for which there are no easy answers.

On July 28, 1965, President Johnson called on the Congress for supplementary funds to meet our increased commitments in Southeast Asia. From that point on, economic and financial policy began to operate in a different environment as we faced new challenges to domestic stability and international balance.

National defense expenditures, as recorded in the administrative budget, had been reduced by $4 billion in fiscal year 1965 -- the fiscal year ending just prior to July 28, 1965. Because of the larger Vietnam effort they were to rise by $7.5 billion in fiscal 1966 -- the fiscal year that ended last June 30.

At the same time, business investment programs had gathered momentum, testifying to the success of the earlier policy of tax reduction and investment incentives. Inevitably, the pace of expansion quickened.

Gross National Product, the measure of the goods and services produced in our nation, had increased at an average annual rate of $11 billion per quarter from mid-1963 to mid-1965. During the same period, wholesale industrial prices increased by less than 1 percent per year, and the consumer price index rose at an annual rate of about 1-1/2 percent.

The larger demands attributable directly and indirectly to Vietnam pushed the Gross National Product advance to an average $16 billion per quarter between the second quarter of 1965 and the first quarter of 1966. Industrial prices began to edge up a little faster, and consumer prices rose somewhat more, chiefly because of temporary supply problems in farm and food products.

There was still considerable leeway for rapid increases in real output. Between the second quarter of 1965 and the first quarter of 1966, Gross National Product at constant prices grew at an annual rate of more than 7 percent. The unemployment rate fell by a full point, from 4.7 percent in June 1965 to a 3.7 percent low in February of this year. But, if this pace of overall expansion had been allowed to continue, costs and prices would have been driven up sharply, and in time the expansion of the 1960s might well have followed a pattern that became all too familiar in the 1950s.

In order to sustain the expansion and meet the growing needs of the Vietnam effort within a free market environment,

it was essential for the Federal Government to shift from an overall policy of stimulating demand to one of moderate restraint.

Following the Federal Reserve action last December increasing the discount rate, the Administration moved early this year to restrain the growth of demand by fiscal means. Under the Tax Adjustment Act of 1966 and related measures, the Federal Government is taking an additional $10 billion in excess purchasing power out of the economy this year, relative to last year.

The Federal budget on national income and product account -- which best measures the economic impact of government -- moved into sizable surplus -- about $3 billion at an annual rate -- in the first half of this calendar year after running in deficit in the last half of calendar 1965. Available information suggests that the accounts remain in balance or surplus.

Despite the shift to fiscal restraint, the pressure of demand has remained strong, particularly in the capital goods sector. Monetary restraint has helped to hold the economy on course, but could not relieve selective demand pressures in the plant and equipment area without inflicting an intolerable burden on the homebuilding industry. As it is, we have been faced with a monetary situation of extreme tightness and the highest level of interest rates since the 1920s. Special measures, including an expansion in the financial resources of the Federal National Mortgage Association, have been set in motion to ease the adjustment in residential construction.

Because monetary restraint could not be pushed too far without exerting disruptive effects, the President announced his five-point anti-inflationary program on September 8. The key fiscal elements in the program were the promise of strong measures to reduce lower priority Federal expenditures and the suspension of the 7 percent investment tax credit and accelerated depreciation on buildings and structures. As more of the burden of restraint was to be assumed by fiscal measures, the President urged that interest rates be reduced at the earliest opportunity.

The Congress has passed and the President has signed a bill requested earlier giving more flexible powers to our

monetary authorities to set interest rate ceilings on consumer savings accounts. The three regulatory agencies with responsibilities in this area -- the Federal Reserve Board, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation -- have acted promptly to make good use of that authority.

We have also made progress in reducing and rearranging government borrowing requirements. We are reviewing needs of Federal lending agencies for new money and cutting back wherever possible. We are going to meet remaining needs without requiring the private market to take up additional securities from Federal agencies. Thus we have renounced further sales of participations in pools of direct government loans for the rest of this calendar year, unless there is marked improvement in the market.

These activities have had a favorable market impact, reflected in the receding of key interest rates from peaks reached in August and in a much better atmosphere in the financial markets themselves.

We in the Treasury have been implementing plans to meet our additional money needs for the rest of the year in ways which will have minimum impact on the market. Federal Reserve actions have been coordinated with the rest of the program to gain the greatest effect in reducing interest rate pressures.

Finally, as you all know, the Congress has approved the suspension of tax incentives to business investment which the President requested.

From the Tax Adjustment Act of 1966, proposed last January in the State of the Union Message, to the program the President announced on September 8, these have been measured steps that have been taken in the direction of fiscal restraint. Some would have had us take a giant stride. But the Administration has been cautious -- and rightly so, in my opinion -- recognizing the danger of taking harshly restrictive fiscal action.

As it has turned out, Gross National Product has been held to an average $12.4 billion advance in the past two quarters, after surging forward by an average $17.4 billion in the previous two quarters before the program of moderate

restraint took hold. Real output is estimated to have grown at about a 4-1/2 percent annual rate in the quarter just ended.

Moreover, the portion of the third quarter Gross National Product increase that was accounted for by rising prices was less than in the first half of the year. Recent trends in raw material and other wholesale prices are quite encouraging.

But the pressure of rising demand is still strong, and additional fiscal restraint may very possibly be needed in the coming year. That decision can be reached only when the financial results of the current Congressional session are tallied, when future financial requirements for Vietnam and essential civilian programs are reasonably firm, and when a final assessment can be made of the likely pace at which the economy will be moving next year.

Considering the direct and indirect effects of Vietnam on our balance of payments, performance in that area has been very encouraging this year, with preliminary indications suggesting a good third quarter showing. But the need for further balance of payments progress will also weigh in any decision as to the appropriate degree of restraint domestically.

The Administration has demonstrated beyond doubt that it can employ fiscal policy effectively to moderate an expansion which threatens to proceed too fast. Earlier we showed the power of fiscal action to rouse a sluggish economy from its lethargy. The President has avowed his determination to take still further action if other measures prove to be necessary.

I appreciate the fact that it is rather difficult for most people to figure out just where all this talk about the economy leaves them. How does all this bear, most people want to know, on the price of food or an automobile, on jobs and income and taxes?

The best way to judge the management of the economy is by the results. The results are at every hand. We are in

the sixth year of our longest period of peacetime economic expansion. The United States today is living in unprecedented and unparalleled prosperity.

From the fourth quarter of 1955 to the first quarter of 1961, our Gross National Product grew by about $95 billion, or 23 percent. From the first quarter of 1961 to the second quarter of 1966, it grew almost $229 billion, or 45 percent.

Corporate profits after taxes, which went down almost 14 percent, or almost $4 billion, in that 1955-1961 period, have shot up more than $24 billion -- almost 100 percent -- in the 1961-1966 period we are talking about.

Personal income grew by $86 billion, or about 27 percent, in that period 1955 to 1961. In the 1961-to-1966 period, it grew by almost $167 billion, or 41 percent.

Disposable annual personal income per person -- again speaking for the fourth quarter 1955 to the first quarter 1961 -- went up $241, or about 14 percent. From the first quarter 1961 to the second quarter 1966, disposable personal income per person went up $601: almost 31 percent.

Let us refine those figures further and put them on a still more personal basis. One of the best measures of economic progress is how long you have to work in order to pay for something. So let us consider the case of a typical American factory worker who has a wife and two children.

In 1960 he had to work 14 minutes to earn the price of a half-gallon of milk. Today it takes him 12 minutes -- two minutes less.

In 1960 he worked 20 minutes to earn a pound of butter. Today it takes him 18 minutes -- two minutes less.

He worked 16 minutes in 1960 to earn a dozen eggs. Today he works only 12 minutes -- four minutes less.

In 1960 he had to work 17 minutes to earn a pound of chuck roast; today it takes him 14 minutes, which is three minutes less.

He worked 26 minutes in 1960 to earn a pair of nylon stockings for his wife. Today it takes him 22 minutes -- four minutes less.

Back in 1960 he had to work 33 minutes to earn a six-pack of beer. Today he works only 25 minutes -- eight minutes less -- for the same purchase.

In 1960, if he wanted to buy an eight-cylinder, four-door sedan, the price equalled his earnings for 28-1/2 weeks. Today he earns the price of a better car in one week less.

It takes this typical worker 4.2 hours less work per week today to earn all the goods and services included in the consumer price index than it did in 1960.

It is true that we have experienced some price inflation. But the buying power of our income has risen appreciably faster than prices have.

How do we stack up in comparison with other nations? In the early part of the Kennedy Administration, the economic growth rates of the Western European nations were our envy. Since then, of course, their rates have slacked off and ours have risen. But what about prices?

The American consumer has fared better over the past six years than consumers have in any other principal industrial nation.

Consumer prices in the United States have increased by about 10 percent since 1960, compared with increases ranging from almost 13 percent to more than 43 percent in the 11 other major industrial nations.

Consumer price indices in every country except Canada and Belgium have risen at least twice as fast as the United States index in that period. Denmark and Japan, two prospering nations, have experienced consumer price index increases of 38 and 43 percent respectively since 1960.

With these figures I have tried to balance the assessment of our economic conditions which I hope you will take away with you.

It adds up to something like this: We have problems, yes. But to have problems is the condition of mankind.

It is much more important to consider what kind of problems we have. Five years ago we were fighting the problems of a sluggish economy, a rate of economic growth which was inadequate to meet the needs of the American people and nation.

Today, in contrast, we are confronting the problems of prosperity. It behooves us to consider carefully before we bemoan the problems of a nation with a Gross National Product running at a seasonally adjusted annual rate of $746 billion and a seasonally adjusted unemployment rate of 3.8 percent. These are great accomplishments, and the problems we face are not a "slough of despond;" they are a great challenge.

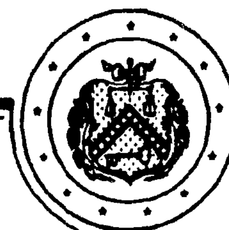
As President Johnson said in his annual Economic Report, transmitted to the Congress last January:

> "We have learned how to achieve prosperity. Now we must sustain it, deal with its problems, and make the most of the opportunities it presents."

I can suggest no better thought than that to leave with you.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, October 24, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury lls, one series to be an additional issue of the bills dated July 28, 1966, and e other series to be dated October 27, 1966, which were offered on October 19, 1966, re opened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing January 26, 1967		:	182-day Treasury bills maturing April 27, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.680	5.222%	:	97.209	5.521%
Low	98.669	5.265%	:	97.198	5.542%
Average	98.674	5.246% 1/	:	97.201	5.536% 1/

73% of the amount of 91-day bills bid for at the low price was accepted
10% of the amount of 182-day bills bid for at the low price was accepted

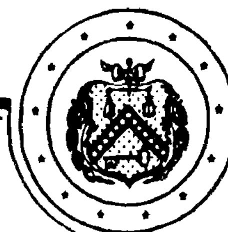
AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
oston	$ 26,814,000	$ 15,564,000	:	$ 16,027,000	$ 11,027,000
ew York	1,479,185,000	851,607,000		1,656,982,000	773,291,000
hiladelphia	26,929,000	14,897,000		13,734,000	5,734,000
leveland	32,621,000	32,086,000		30,649,000	27,024,000
ichmond	15,962,000	14,692,000		21,555,000	6,555,000
tlanta	48,928,000	26,683,000		41,607,000	15,969,000
hicago	274,422,000	122,230,000		311,948,000	48,248,000
t. Louis	60,866,000	45,596,000		52,734,000	37,834,000
inneapolis	22,464,000	17,894,000		13,155,000	6,805,000
ansas City	41,796,000	31,751,000		15,648,000	15,137,000
allas	18,223,000	14,223,000		12,637,000	7,367,000
an Francisco	158,474,000	113,259,000		189,858,000	45,488,000
TOTALS	$2,206,684,000	$1,300,482,000 a/		$2,376,734,000	$1,000,479,000 b/

Includes $263,189,000 noncompetitive tenders accepted at the average price of 98.674
Includes $157,128,000 noncompetitive tenders accepted at the average price of 97.201
These rates are on a bank discount basis. The equivalent coupon issue yields are 5.39% for the 91-day bills, and 5.78% for the 182-day bills.

F-672

TREASURY DEPARTMENT



WASHINGTON, D.C.

OR RELEASE 6:30 P.M.,
uesday, October 25, 1966.

RESULTS OF TREASURY'S MONTHLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury ills, one series to be an additional issue of the bills dated July 31, 1966, and he other series to be dated October 31, 1966, which were offered on October 19, 966, were opened at the Federal Reserve Banks today. Tenders were invited for 500,000,000, or thereabouts, of 273-day bills and for $900,000,000, or thereabouts, f 365-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	273-day Treasury bills maturing July 31, 1967		:	365-day Treasury bills maturing October 31, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	95.799	5.540%	:	94.385 a/	5.538%
Low	95.764	5.586%	:	94.374	5.549%
Average	95.778	5.567% 1/	:	94.379	5.544% 1/

a/ Excepting 1 tender of $2,000
14% of the amount of 273-day bills bid for at the low price was accepted
48% of the amount of 365-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 10,000	$ 10,000	:	$ 11,043,000	$ 1,043,000
New York	828,732,000	409,232,000	:	1,713,193,000	728,271,000
Philadelphia	6,055,000	2,055,000	:	11,097,000	2,997,000
Cleveland	1,126,000	1,126,000	:	7,822,000	5,436,000
Richmond	264,000	264,000	:	2,618,000	2,438,000
Atlanta	18,121,000	3,121,000	:	29,769,000	3,674,000
Chicago	129,677,000	59,677,000	:	321,371,000	130,057,000
St. Louis	15,408,000	3,108,000	:	28,437,000	9,937,000
Minneapolis	3,600,000	1,600,000	:	7,646,000	2,646,000
Kansas City	1,064,000	1,064,000	:	2,525,000	2,525,000
Dallas	11,330,000	1,330,000	:	13,393,000	1,393,000
San Francisco	60,508,000	17,608,000	:	123,129,000	14,180,000
TOTALS	$1,075,895,000	$500,195,000 b/		$2,272,043,000	$904,597,000 c/

/ Includes $15,238,000 noncompetitive tenders accepted at the average price of 95.778
/ Includes $42,371,000 noncompetitive tenders accepted at the average price of 94.379
/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.84% for the 273-day bills, and 5.87% for the 365-day bills.

F-673

TREASURY DEPARTMENT

WASHINGTON, D.C.

October 25, 1966

FOR USE IN MORNING NEWSPAPERS
OF THURSDAY, OCTOBER 27, 1966

PAKISTAN ADDED TO COUNTRIES WHERE UNITED STATES CITIZENS MAY BUY LOCAL CURRENCY FROM UNITED STATES GOVERNMENT

The Department of State and the Treasury Department announced today that United States citizens visiting or residing in Pakistan may purchase that country's currency, the Pakistani rupee, from the United States Embassy and Consulates in Pakistan. Sales will be made at the official rate of exchange, and no conversion fees will be charged.

U. S.-owned foreign currencies are now being sold to American tourists, businessmen and residents in seven countries. The others are Ceylon, Guinea, India, Israel, Tunisia and the U.A.R. (Egypt).

Purchases of the currencies of these countries owned by the U. S. Government relieve strain on the United States balance of payments by reducing the flow of dollars from U. S. to foreign hands. The United States Government, therefore, urges Americans to take advantage of these arrangements.

In Pakistan, Pakistani rupees owned by the U.S. Government may be purchased at the United States Embassy in Rawalpindi, the Embassy Branch Office in Karachi, and at the American Consulates in Dacca, Lahore, and Peshawar, in exchange for United States currency, personal checks drawn on a bank in the United States or for United States travelers checks. Purchasers must present their passports for identification.

oOo

F-674

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT TESTIMONIAL DINNER FOR
CONGRESSMAN RICHARD HANNA
DISNEYLAND HOTEL, ANAHEIM, CALIFORNIA
TUESDAY, OCTOBER 25, 1966, 8:15 P.M., PDT

It is a particular pleasure for me to be with you tonight to join in your tribute to Congressman Dick Hanna, who in his four years as Congressman for California's Thirty-Fourth District, has done so much to help his District, his State and his nation.

I speak from firsthand experience when I talk of Congressman Hanna's accomplishments. As Secretary of the Treasury I have often had the privilege of working with his and his fellow members of the House Banking and Currency Committee, which handles some of the most important legislation to come before the Congress. And that legislation has never been more important -- and that Committee has

never been more productive -- than during the past four years of Congressman Hanna's service.

I suppose that to someone unfamiliar with the Congress and with its Committees the phase "Banking and Currency Committee" might conjure up a group of people concerned with abstruse technical and financial matters that might affect the banking business but have little or no relevance to anything else.

Yet I cannot imagine a greater misconception of the Banking and Currency Committee and of its concerns.

For, technical as those concerns might sometimes be, they are concerns of very real and deep -- and often very direct -- relevance to Americans throughout the country.

For example, the Congress just ended passed some of the most forward-looking housing legislation in our history --

and, in the House of Representatives, it was the House Banking and Currency Committee that handled that legislation.

It was responsible in the House of Representatives for the Demonstration Cities Act which Congress passed last week. This new law will set in motion the first comprehensive and coordinated effort in our history to help cities meet the enormous problems that threaten to engulf them.

Among other things, it will help in planning, developing and carrying out locally designed programs for rebuilding or restoring entire slum or blighted neighborhoods, in cities large and small -- and it will help in furnishing facilities and services to enable those living in our cities to become useful productive citizens, no longer dependent on public assistance.

Of equal importance were the Housing and Urban Development Acts of the past two years, which established:

-- a Cabinet-level Department of Housing and Urban Development, giving our cities, for the first time, a direct voice in the highest councils of our government.

-- a rent supplement program designed to marshall the resources of private enterprise to provide decent housing for the needy.

These are but two measures sponsored by the Banking and Currency Committees of the Congress -- and strongly supported by Congressman Hanna, both in Committee and on the floor of the House -- that generations of Americans to come will count among the most significant accomplishments of this generation.

These are measures that represent new beginnings and new paths toward a greater future. But the future depends not only on far-reaching measures such as these, but also on how well we meet the more immediate and temporary tasks that confront us day-by-day and month-by-month.

The vigor and soundness of our financial institutions are vital to the vigor and soundness of our economic expansion. Actions to ease unnecessarily restrictive regulations have been taken in the past; they have borne fruit in stronger competition and a more efficient flow of funds from savers to borrowers with the most urgent needs. Development of a $140 billion savings and loan industry in recent years is a prime example, while our commercial banks have achieved new heights of service and participation as intermediaries

between savers and those who borrow for an infinite variety of needs and uses.

But appropriate regulations were clearly required to protect the safety of savings of American families, to assure the most efficient and equitable regulation of financial institutions, and to create still better channels for the flow of funds to borrowers.

It was for these reasons that the President early this year recommended Congressional action on financial legislation to:

-- arm regulatory agencies with a wider range of effective enforcement remedies;

-- strengthen statutory provisions dealing with savings and loan companies and associations;

-- increase the maximum amount of insurance coverage for bank deposits and savings and loan accounts; provide safeguards against conflict of interests in the management of these institutions; and make regulations applying to various types of institutions as parallel as possible.

The enactment this very month of the Financial Institutions Supervisory Act carried through this recommendation. Again it was the handiwork and contribution of the Banking and Currency Committee of the Congress and your Congressman Dick Hanna played an important role.

And no task immediately before us is more vital than maintaining both the strength and the stability of our economy.

This is not the task we were faced with earlier in the decade. Indeed, five years ago, when this decade began, our economy was mired in its fourth postwar recession. And our performance in the past offered us little hope for the future. To look back was only to become acutely aware that the three earlier recessions had been followed by successively shorter and weaker recoveries, and that the

previous recessison had produced what still remains the largest peacetime budget deficit in our history.

We were faced, then, with the monumental task of trying to put our economy on the path of strong and sustained growth -- without recession, without inflation, and without excessive unemployment. There were those who insisted it could not be done -- because it had never been done -- never, at least during peacetime.

Yet, in July of last year -- when President Johnson told the nation that Hanoi had stepped up its aggression against South Vietnam, and that we had no choice but to increase our aid to South Vietnam in terms of both men and money -- in that July we stood in the 52nd month of the longest peacetime expansion in our history.

During that period, our real Gross National Product had grown by about one-fourth. We perhaps do not appreciate what a staggering achievement that was until we realize, for example, that that one-fourth increase in our real national output -- not the total, but just the increase over that four and a half year period -- is equal in amount to the total real national output of France and Italy combined for the entire year of 1965.

And that enormous growth meant greater economic abundance and opportunity for Americans in all walks of life. During that period unemployment fell to 4-1/2 percent from a 7 percent high in early 1961. Real disposable income grew by 24 percent -- compared with 10 percent for the previous 4-1/2 year period. After-tax corporate profits grew by 80 percent -- compared with a drop of 6 percent for the previous 4-1/2 year period.

And the wage-earner's purchasing power increased substantially: for example, a manufacturing worker with three dependents saw his weekly spendable earnings -- on the average and after allowing for price increases -- rise by a full 15 percent over that period, compared with a rise of only one percent over the previous 4-1/2 year period.

We accomplished these unprecedented gains from 1961 through 1965 through a fiscal policy that combined a program of massive Federal tax reduction to boost private spending and private incentives with a program of stringent restraint upon the growth of Federal spending. During this period, the monetary authorities complemented this fiscal policy by assuring an ample supply of money and long-term credit so essential for domestic growth -- particularly in our home-building industry -- while trying to help our balance of payments by maintaining short-term interest rates at levels

comparable to those abroad.

As a result of these policies we seemed -- in mid-1965 -- on the threshold of an entirely new era of economic experience -- an era of unparalleled peacetime prosperity, at full employment and with stable prices. The prospect was that we would enter this era gradually, and our purpose was to insure that we did so.

But with the intensification of hostilities in Vietnam, the tempo picked up sharply. Partly through the impact of additional defense spending -- but even more under the impetus of the bullish psychology generated by this new turn of events -- our economy began to climb steeply.

The danger was that it would climb too steeply. In fact, from an average of $10-1/2 to $11 billion per quarter for the previous eight quarters, our Gross National Product jumped

to an average of $16 billion per quarter in late 1965 and early 1966.

Faced with the danger of excessive economic exuberance -- and taking into account the turn of the Federal Reserve Board early last December to a policy of monetary restraint -- we shifted from a stimulative fiscal policy to one of moderate restraint. Through that shift, as President Johnson has pointed out, we have siphoned off some $10 billion of excess purchasing power from our economy during this calendar year. At the same time, the Federal budget on the national income and accounts basis -- our best measure of the economic impact of fiscal policy -- has been in surplus or balance throughout this calendar year.

Overall, the impact of these measures has been by and large what we hoped and expected it to be. The $11 billion rise in GNP during the second quarter of this year -- and the $13.7 billion rise in the third quarter -- not only extended the pattern of solid advances that has characterized the current, record-breaking expansion, but also reflected a welcome moderation from the feverish rate of late 1965 and early 1966 that produced both imbalance and excess demand with their accompanying price pressures.

At this more sustainable pace we are still surpassing most of the other industrial countries both in the total value of production and incomes and in the rate of real growth. Corporate profits and personal income -- both before and after taxes -- continue to rise and thus to extend the most steady, sustained increase in modern times. After-tax household income is seven percent higher than a year ago, generating a substantial rise in real purchasing power. Unemployment rates have been at or below four percent every single month this year. And altogether, our continued increases in capital facilities, skilled manpower and productivity have made it possible for us to shoulder the burdens of Vietnam without giving up rising living standards or measured advances.

But while on an overall basis we have been achieving satisfactory progress, by the beginning of September it became clear that we had to take immediate additional action -- action beyond the steps we took at the beginning of the year -- to relieve several specific pressures and resulting imbalances that threatened to develop into severe economic distortions. These pressures were making themselves felt in three special areas of our economy:

-- in our money and financial markets, where the combination of excessive demands for credit, monetary restraint and high interest rates has had little or no impact on our booming capital goods sector while sharply reducing the flow of funds to our housing industry.

-- in our market for capital goods, where the ever mounting flow of new orders by business firms coming on top of an unprecedented rate of outlays for plant and equipment is generating rising prices, rising wage rates and shortages of some skilled labor as well as swelling already large demands for capital from our banks and security markets.

-- in our rising rate of total government expenditures -- Federal, State and local -- highlighted by steadily expanding defense and public work outlays, which is rapidly adding to overall demand.

On September 8, therefore, President Johnson announced a program specifically designed to alleviate the pressures in

all of these areas.

That program included:

1. A strong program for further reduction in lower priority Federal expenditures.

2. The temporary suspension of special investment incentives in the 7 percent investment tax credit for the purchase of machinery and equipment and the option to elect accelerated depreciation on buildings.

3. An urgent call to the Federal Reserve Board and our large commercial banks to follow the actions of the Administration and the Congress -- both in the fiscal area and in the credit area -- to do all they can to lower interest rates and "ease the inequitable burden of tight money."

It is this third part of the President's program that I want to stress today -- for it is in this area that Congressman Hanna and the Banking and Currency Committee have attacked the discriminatory impact that tight money and inordinately high interest rates have had on homebuyers and homebuilders all over America.

As this year progressed, it became very clear that the policy of monetary restraint initiated by the Federal Reserve Board in December of last year to head off the inflationary threat accompanying the Vietnam build-up was having little or no impact on the booming capital goods sector of our economy while severly squeezing our mortgage market and our homebuilding industry. It became clear that -- while there was a real need for the monetary restraint that would be accompanied by some rise in interest rates -- interest rates had, in fact, soared to the highest levels in decades and

were, in the process, exerting restraint where it was least, rather than most, needed.

As a result, the Administration -- and members of Congress such as Congressman Hanna-- became increasingly concerned over the distortions in our financial markets and their impact on our homebuilding industry.

Monetary policy is, of course, the province primarily of the Federal Reserve Board -- which is an independent agency created by Congress and responsible to Congress. But both the Administration and the Congress together took several actions aimed at halting excessive interest rate escalation in the field of consumer savings, at lightening as much as possible the burden of Federal finance on our money markets, and paving the way for an easing of the pressures of tight money and high interest rates upon our

mortgage market and homebuilding industry.

These actions included:

1. Legislation to permit the Federal agencies which regulate financial institutions to fix ceilings on consumer-type time deposits thereby halting the excessive rate competition for savings that was driving up the cost of money and channeling it away from the institutions and borrowers in the homebuilding sector -- legislation strongly supported by Congressman Hanna both in Committee and on the floor of the House.

2. Prompt administrative action on the part of these Federal regulatory agencies to carry out this purpose by establishing such ceilings -- thereby moderating the escalation of interest rates and permitting larger savings flows to institutions which specialize in mortgage financing.

3. Legislation enlarging the borrowing authority of the Federal National Mortgage Association to enable it to carry out its secondary market operations and thus to furnish funds for additional mortgage activity. This, again, was legislation strongly supported by Congressman Hanna, both in Committee and on the floor of the House.

4. Administrative action to reduce the volume of Federal agency borrowings in our financial market, thus reducing pressures on interest rates.

These are some of the steps we in the Administration -- together with Congressman Hanna and other members of Congress --

have taken to free the homebuilding industry from the unduly restrictive monetary and credit restraints that have hampered its growth this year and to halt the climb in interest rates. Already these steps -- along with the other measures in the President's program -- have begun to bring results. The overall level of interest rates, which had risen so sharply this year, has recently eased. Longer-term Treasury, corporate and municipal bond interest rates have declined from the high levels reached in August and early September.

But the interests and efforts of Congressman Hanna and the House Banking and Currency Committee reach beyond even these areas of vital concern to this District, this State and this nation. For we live in a deeply interdependent world. No one knows that better than you here

in California who live on the rim of the vast Pacific world. And I should not be surprised if in the decades to come the nations and peoples of this Pacific world do not look back to one great act -- to one great measure in whose adoption Congressman Hanna and the House Banking and Currency Committee played a leading role -- as the beginning of a new era of progress and prosperity for the entire Pacific and the bordering lands of the Asian mainland. That act is embodied in the Asian Development Bank -- whose first annual and organizational meeting I will have the great privilege of attending next month in Tokyo.

The aim of this Bank -- a venture in which the United States has joined with 31 other nations, including 12 nations outside Asia -- is to marshall and channel the capital resources required to hasten the day when the peoples of

Asia can fully share in the social progress and the enormous economic abundance that so much of the rest of the world now takes for granted.

On March 16, when President Johnson signed the legislation authorizing United States participation in the Bank, he turned to the Ambassadors of the Asian members of the Bank and said:

> "This is a moment in which history and hope meet and move on as partners. ...This act is an economic Magna Carta for the diverse lands of Asia. Its charter links 31 countries in a union against the involuntary economic servitude imposed on the people of Asia by time and circumstance, and by neighbor and nature.

> There is also a deeper meaning. This billion dollar bank is a symbol that the twain have met, not as Kipling predicted, "At God's great Judgment Seat," but at the place of man's shared needs."

I have every confidence that history will more than bear out those words. I have every confidence that it will bear out the wisdom of men like Congressman Hanna who have not been afraid to look to the possibilities of the future as well as to tend to the pressing problems of the present.

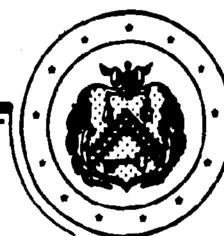
I know that Congressman Hanna has done far more than I have been able to talk to you about today, for I have only talked about his record as I know it from firsthand experience -- from working with him on matters of joint concern to the Treasury Department and the House Banking

and Currency Committee, matters that are also, as I have indicated, of great concern to this District, this State, this nation and the world in which we all live.

And that record shows that he works -- that he works hard and effectively -- for the people he represents in terms both of today and tomorrow, of their immediate world and the larger world shared by all men.

o0o

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 26, 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 November 3,1966, in the amount of $2,290,053,000, as follows:

91 -day bills (to maturity date) to be issued November 3, 1966, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated August 4,1966, and to mature February 2,1967, originally issued in the amount of $1,000,684,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 1,000,000,000, or thereabouts, to be dated November 3,1966, and to mature May 4, 1967.

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, October 31,1966. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

F-675

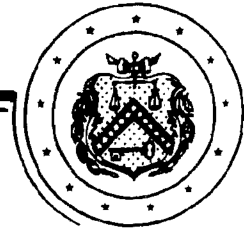
Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. 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 November 3, 1966, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 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.

oOo

TREASURY DEPARTMENT



WASHINGTON, D.C.

October 26, 1966

FOR USE IN MORNING NEWSPAPERS OF
THURSDAY, OCTOBER 27, 1966

ADVISORY COMMITTEE ON CUSTOMS ADMINISTRATION
DISCUSSES NEW PROBLEMS

Assistant Secretary of the Treasury True Davis said today that the first meeting of the Treasury's Advisory Committee on Customs Administration wrestled primarily with the problems faced by Customs as a result of new trends in international trade.

The Advisory Committee was organized with the approval of Secretary of the Treasury Henry H. Fowler. It is intended to provide a forum for new ideas on simplification and streamlining of Customs procedures. Its members comprise Treasury Department and Customs officials and representatives of organizations engaged in international commerce.

Assistant Secretary Davis, who is chairman of the Committee, emphasized to the members that improved service to the business community is basic Treasury Department policy and that an important element in this concept must, of necessity, be a two way flow of ideas and recommendations.

Mr. Davis said that the Committee considered practical measures which Customs might adopt to deal with the growing trend to package international shipments in enormous containers. "Containerization," he stated, "is already with us, and we must find a solution to the problem, acceptable to the business community."

Mr. Davis indicated that the Committee also addressed itself to the problems confronting the Customs Service with the forthcoming advent of giant-size planes capable of carrying up to 500 passengers; expected to enter into service by about 1970.

United States Commissioner of Customs, Lester D. Johnson, told the group that in order not to defeat the economies to business involved in shipping goods enclosed in large quantities in jumbo containers, Customs will have to place inspectors at some inland points near the final destination of the goods. The Commissioner pointed out that such a dispersal will aggravate the problems currently faced by Customs because of shortages of personnel. Commissioner Johnson told the group that the Bureau has completed the essential preliminary steps in the agency's reorganization into a career service established along regional lines. He said that this has resulted in reduced paperwork, speedier classification and appraisement procedures and generally improved service.

Members of the Committee expressed general satisfaction with the way in which the reorganization is being carried out.

Among those attending the meeting were: I. M. Bomba, President, National Council of American Importers, New York, New York; Ralph Casey, President, American Merchant Marine Institute, Inc., New York, New York; J. Bradley Colburn, President, Association of Customs Bar, New York, New York; J. Edward Day, (former Postmaster General of the United States), Sidley, Austin, Burgess & Smith, Washington, D.C.; Ralph Dewey, President, Pacific American Steamship Association, San Francisco, California; Walter J. Mercer, President, National Customs Brokers and Forwarders Association of America, New York, New York; and James J. Murphy, President, National Customs Service Association, Edgewater, Maryland. Treasury officials at the meeting included True Davis, Assistant Secretary of the Treasury, serving as Chairman of the Advisory Committee, and James Pomeroy Hendrick, Deputy Assistant Secretary of the Treasury. The Bureau of Customs was represented by Commissioner of Customs Lester D. Johnson and two Assistant Commissioners.

oOo

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR IMMEDIATE RELEASE October 27, 1966

TREASURY ANNOUNCES NOVEMBER REFUNDING TERMS

The Treasury will borrow $4.1 billion, or thereabouts, through the issuance of 15-month and 5-year Treasury notes, at par, for the purpose of paying off in cash a like amount of Treasury securities maturing November 15, 1966.

The notes to be issued are:

$2.5 billion of 5-5/8% Treasury Notes of Series A-1968, to be dated November 15, 1966, and to mature February 15, 1968; and
$1.6 billion of 5-3/8% Treasury Notes of Series B-1971, to be dated November 15, 1966, and to mature November 15, 1971.

The maturing securities are:

$1,265 million of 3-3/8% Treasury Bonds of 1966, dated March 15, 1961;
$1,672 million of 4% Treasury Notes of Series E-1966, dated February 15, 1965; and
$1,135 million of 4-3/4% Treasury Certificates of Indebtedness of Series A-1966, dated January 19, 1966.

Interest will be payable on the 15-month 5-5/8% notes on February 15 and August 15, 1967, and February 15, 1968, and on the 5-3/8% 5-year notes semiannually on May 15 and November 15.

The notes will be made available in registered as well as bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service.

Payment and delivery date for the notes will be November 15. Payment may be made in cash, or in 3-3/8% bonds of 1966, 4% notes of Series E-1966, or 4-3/4% certificates of indebtedness of Series A-1966, which will be accepted at par, in payment or exchange, in whole or in part, for the notes subscribed for, to the extent such subscriptions are allotted by the Treasury. The notes may not be paid for by credit in Treasury Tax and Loan Accounts.

The subscription books will be open only on Tuesday, November 1. Subscriptions with the required deposits addressed to a Federal Reserve Bank or Branch, or to the Treasurer of the United States, and placed in the mail before midnight, November 1, 1966, will be considered timely.

Subscriptions from commercial banks, for their own account, will be restricted in each case to an amount not exceeding 50 percent of the combined capital (not

F-677

including capital notes or debentures), surplus and undivided profits of the subscribing bank.

Subscriptions from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Government Investment Accounts, and the Federal Reserve Banks will be received without deposit.

Subscriptions from all others must be accompanied by payment of 2% (in cash, or Treasury bonds of 1966, Treasury notes of Series E-1966 or Treasury certificates of indebtedness of Series A-1966, maturing November 15, 1966, at par) of the amount of notes applied for not subject to withdrawal until after allotment.

The Secretary of the Treasury reserves the right to reject or reduce any subscription, to allot less than the amount of notes applied for, and to make different percentage allotments to various classes of subscribers; and any action he may take in these respects shall be final. The bases of the allotments will be publicly announced, and allotment notices will be sent out promptly upon allotment.

Subject to the reservations in the preceding paragraph, all subscriptions from States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, Government Investment Accounts, and the Federal Reserve Banks, will be allotted in full if a statement is submitted certifying that the amount of the subscription does not exceed the amount of the three maturing securities owned or contracted for purchase for value, at 4 p.m., Eastern Daylight Saving time, October 27, 1966. Any such subscriber may enter an additional subscription subject to a percentage allotment.

All subscribers are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of any of the notes subscribed for under this offering at a specific rate or price until after midnight November 1, 1966.

Commercial banks in submitting subscriptions will be required to certify that they have no beneficial interest in any of the subscriptions they enter for the account of their customers, and that their customers have no beneficial interest in the banks' subscriptions for their own account.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE FREDERICK L. DEMING
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
AT THE INTERNATIONAL FINANCE SESSION
OF THE 53RD NATIONAL FOREIGN TRADE CONVENTION
IN THE GRAND BALLROOM OF THE WALDORF-ASTORIA HOTEL
ON MONDAY, OCTOBER 31, 1966, AT 3:00 PM (EST)

THE INTERNATIONAL MONETARY AND PAYMENTS SYSTEM

I. Introduction

I am pleased and honored at the opportunity to lead off this year's session on International Finance. With every year that passes, it seems to me that monetary and payments questions have attracted more attention. What I intend to do today is to look at these questions particularly from the perspective of their significance in the growth of world trade.

To focus most sharply from this perspective, let me pose three questions and suggest some factors that must be considered in answering them.

1. What has been happening to the American balance of payments and what are the implications of these developments?
2. How can the management of the present international payments system -- the gold exchange standard -- be improved?

3. What is the relationship to world trade of contingency planning for new reserve creation?

The first question attempts to focus attention on the structural factors in the United States balance of payments, the steps which have been taken to correct imbalances in it and the implications of recent developments for the United States and for the world as a whole.

The second question involves considerations of the choices open to the major surplus and deficit countries in managing our international monetary system in the near term future -- especially before activation of any plan for new reserve creation.

The third question opens the way to an exploration of the relationship between the growth of trade and the need for reserves.

II. The U. S. Balance of Payments

I need not recite in detail the record of the American balance of payments since the close of World War II. We ended the War with the world's strongest economy and with a strong international reserve position. We gave and loaned generously to help restore a healthy world economy in which foreign trade could thrive. We had surpluses averaging $1.75 billion per year on a liquidity basis in our international accounts from 1946 through 1949, despite our great efforts to rebuild a war-shattered world.

We had deficits averaging $1.5 billion from 1950 through 1956 and a small surplus in 1957. These helped to produce a better distribution of world reserves and paved the way for significant balanced growth in the world economy and in world trade. But, from 1958 on, the United States was troubled with a far larger than desired -- or desirable -- deficit.

Let me give you a few figures. In 1960, the United States had a balance of payments deficit of $3.9 billion. On commercial trade account -- I eliminate Government-financed exports from this figure -- we had a surplus of $2.9 billion. On what I call "commercial service account" -- which does not include any military or other identifiable Government transactions, travel or transportation transactions, or any investment income, fees and royalties -- we had a surplus of about $450 million. Thus, what I call "commercial trade and service account" produced a surplus of $3.4 billion -- a healthy sign. By 1964, that figure had grown to $4.6 billion -- a good rate of growth -- but we still had an over-all deficit of $2.8 billion.

What were the minus items in those years? Travel and transportation account showed a deficit of $1 billion in 1960 and $1.2 billion in 1964. Private pensions and remittances showed drains of $500 and $600 million, respectively.

In a sense, then, you might say that the "private current account" -- excluding investment income, fees, and royalties -- was in surplus by $1.9 billion in 1960 and by $2.8 billion in 1964.

The big minus items were on private capital account and on Government account. Outflows due to direct investment, to foreign borrowing in the American capital markets, to bank lending abroad, and to non-bank outflows were $3.9 billion in 1960 and $6.5 billion in 1964. I would add to this the errors and omissions figures -- negatives of $900 million in 1960 and $1 billion in 1964. In addition, there were net outflows on account of foreign investment in the United States -- that is, the inflow of foreign investment was smaller than the outflow of payments on foreign-owned direct and portfolio investment. And, even after crediting all income on U. S. foreign investment and fees and royalties, the resulting private capital account -- as I define it to include income as well as outflows -- showed a deficit of $1.7 billion in 1960 and of $2.5 billion in 1964. Those figures reflect the fact that, while investment income and fees and royalties had grown significantly from 1960 to 1964, the outflow on direct investment, portfolio investment, bank loans and non-bank financial transactions had grown even faster.

Government account, which includes dollar aid, net military expenditures, debt service, and so on, also was negative -- by $4.1 billion in 1960, but by just $3.0 billion in 1964. Efforts made by the Government to tie aid, to reduce the foreign exchange costs of our military requirements abroad, and to make other foreign exchange economies had produced substantial savings between 1960 and 1964.

The record of the first half of 1966 shows a marked change from 1964. What I call the commercial trade and service account was just $1.9 billion at an annual rate -- down $2.7 billion from the 1964 figure. This deterioration reflected primarily the rapid run-up in imports, due to a strong economy in the United States. Exports increased, but far less than imports.

The travel and transportation deficit was worse by $400 million than in 1964, and the private pension and remittance drain increased by $36 million -- both annual rates. Thus, not only did the trade and service surplus shrink, but the deficits on travel and remittances increased.

Fortunately, the private capital account showed marked improvement. Gross outflows were down sharply from 1964 -- due, in part, to the Interest Equalization Tax and, in part, to the voluntary restraint programs. The really big saving

came in the position of the banks, which showed an outflow of $2.5 billion in 1964, against an inflow of about $300 million, annual rate, in the first half of 1966. Here, both tight money and the voluntary program combined to produce a major swing.

Direct investment outflow in the first half of 1966 was a bit lower than last year, but higher than in 1964. But income on overseas investment and from fees and royalties grew. So did portfolio investment from abroad -- reflecting, in some measure, the attractive interest rates here. The net effect of the various private capital transactions -- including net income receipts -- was to produce a net inflow in the first half of 1966, as against an outflow in 1964.

Government account, unfortunately, worsened, reflecting mostly the rising foreign exchange costs of military expenditures centered about the Vietnam operations.

The net of developments in the first half of 1966 was that the deficit was held at about the 1965 level, which was just half that of 1964. This was achieved despite Vietnam and a very strong domestic economy -- no mean feat.

For this audience, it is not necessary to recite the various measures taken to reduce the deficit on a liquidity basis from $3.9 billion in 1960, to $2.8 billion in 1964, to $1.3 billion in 1965, and to hold it at about that annual rate in the first half of 1966.

What is important to note is that both general measures -- fiscal and monetary policies -- and selective measures have been employed. The recent report on the adjustment process of Working Party 3 of the Organization for Economic Cooperation and Development suggests that both types of measures may be required to adjust imbalances.

What is also important to note is the strong tendency of our commercial trade and service account to worsen when our own economy steps up its growth rate sharply, relative to other competing industrial countries. This is what happened between 1964 and today. A more sustainable growth rate in the future -- a prime goal of policy -- would bring about improvement in the current commercial balance. Here both fiscal and monetary policy will continue to play a large role. Here, also, export promotion can help, and you people can play a direct part.

But, even after utilizing fiscal and monetary policy in reasonably optimum fashion, there might still be question as to whether, with the Vietnam conflict, equilibrium can be attained in our international accounts without further special measures. As noted, we already have employed some selective measures to restrain capital outflow and reduce the foreign exchange costs of our military and aid responsibilities.

Should the United States seek to give absolute priority to the quick attainment of equilibrium, or should we seek just to continue to progress toward that goal without invoking severe special measures?

These are questions that should not be answered solely by the United States, because actions taken here have implications for many other countries. As Secretary Fowler observed in his speech before the International Monetary Fund in September, there are three broad possibilities open to the United States in dealing with the problem.

The first course would be to apply more direct general and selective measures that reduce the flow of dollars to the rest of the world in general. This would mean that the developing countries, as well as the developed countries, might have lower dollar receipts. Developing countries would have fewer dollars to spend in Europe, and Europe would export less.

The second course would be to direct measures consciously, so as to impinge as selectively as possible on the surplus countries. Measures that affect capital outflow or other factors could be so directed.

The third possibility -- certainly, the one to be most desired -- is to seek in concert with the surplus countries the best way of sharing the adjustments to be made to achieve

equilibrium in the world's payment pattern -- including the timing of these adjustments. This would call for a more active, rather than a passive, policy on the part of the surplus countries. It would take account of the fact that an unduly slow rate of growth can create a balance of payments surplus and an export of unemployment which should not be any more acceptable internationally than an unduly rapid rate of growth leading to a deficit.

III. The Adjustment Process

I might close this section of this talk with a bit more reference to the Working Party 3 report on the adjustment process. The study represents an important contribution -- not only because it breaks some new ground -- but because it represents the combined judgment of senior officials of the leading financial and trading countries represented on the Working Party.

One is struck, in reading the Working Party's report, with the very complex character of the present-day adjustment process. This is partly because governments now pursue a much wider variety of domestic and international objectives, which must be taken into account in any policy mix. Thus, full employment, a satisfactory growth rate, reasonable price stability, equitable distribution of income, and balanced

regional and sectoral development, as well as nonrestrictive foreign trade, reasonably free capital movements, and provision of foreign aid, are all objectives of policy. The policy instruments available to governments are not always adequate to achieve the most desirable blend of programs looking toward these objectives. Another complexity results from the fact that different countries may give somewhat different priorities to the various aims.

In the field of general policies, the report suggests that there is a need for greater flexibility in budgetary management, in the variability of tax rates, and in the development of expenditures by regional and local authorities. Price and income policies also have their bearing on the balance of payments problem, as well as other national policy objectives.

The report also stresses the fact that surplus countries have a responsibility to formulate policies with a view to correcting imbalances, just as do deficit countries.

Finally, it is notable that the report has little to say about the imposition of quantitative restrictions on imports, which took so prominent a place in past discussions. Although mentioning this possibility, the report passes it over with very little discussion, noting that some countries have preferred temporary imposition of surcharges on imports to restrictions.

But the main point of interest to foreign traders is that essentially the whole approach to adjustment has veered away from trade restrictions to a much more elaborate mix of general and selective policies affecting government transactions and capital movements, leaving trade largely influenced by general policies, rather than specific restrictions. The foreign trader can, therefore, be reassured that the major countries, in their considerations of the adjustment process, are looking toward a rising level of world trade and seeking corrective measures that will not interfere with this growth trend.

IV. Improvement in the Management of the Gold Exchange System

I turn now to the second question I posed -- how can the present monetary and payments system be improved? Here, I shall refer to the recent report of the Deputies of the Group of Ten countries -- especially the second chapter of that report, which deals with this subject.

One might wonder why there is any reason to even think of improving a system that has worked so well for the past two decades. There have been problems, but they have been met quite successfully. And world trade has expanded remarkably. The annual figures on world trade have succeeded one another in an impressive parade of growth.

A growth rate for world imports of 7 to 8 percent in value terms, during the past several years, is, indeed, striking. Some of this increase is due to price rises, but, even after adjustment for this factor, we find a gratifying rate of expansion, year after year.

I believe that one important factor in this growth of world trade has been the parallel growth in world reserves, stemming, in large part, from U. S. deficits. I want to comment more broadly on this point a little later.

But here I want to note that the recent Group of Ten Report cited four points relating to both the current smooth functioning of the world payments system and to possible improvements in it.

First, there is recognition of the great utility of the arrangements for quick, short-term credit facilities among central banks -- most notably the Federal Reserve swap network. And there is recognition that these facilities might be enlarged and improved to make the present system function even better.

Second, there is approval of the process of "multilateral surveillance" -- which is a grand way of describing the co-operative and consultative procedures that take place regularly among countries belonging to the OECD and the Bank for International Settlements. This process has worked well so far,

but the major countries believe it can, and should, be improved to work even better.

Third, there is reference to possible use of long-term loans of reserves under special circumstances.

Fourth, however, there is concern expressed about certain destabilizing tendencies in the payments system which result from shifts of international reserves and reserve composition. There is, consequently, recommendation for periodic review of reserve policies of Group of Ten countries.

On the whole, the tenor of the above discussion is that the present monetary system is functioning effectively and is facilitating growth in world trade. It has been an evolving system -- one which has been improved over time, and one which can be improved further. But, generally, the improvements foreseen are also evolutionary, rather than revolutionary.

The reasons for this rather cheerful attitude are not hard to see. The system has worked well. It has weathered successfully several potential crises, through judicious application of corrective national policies, international consultation and cooperation, and use of both formal and ad hoc credit arrangements.

But the fourth point noted above -- potential destabilizing factors arising from shifts in reserves and their composition -- needs further comment. It is seen most clearly as a product of three forces:

-- Any net shifts in reserves from countries with low gold ratios to those with high gold ratios increases the demand for gold.

-- Annual additions to the monetary gold stock have been smaller than the recent demand for gold to add to foreign reserves.

-- The focus of such monetary demand for gold -- above these annual additions of new gold production -- is on the United States, which, alone among the countries of the world, freely converts its currency into gold for foreign monetary authorities.

In sum, the world outside the United States has been making larger annual additions to international reserves than could be satisfied by newly mined gold. The United States -- as the great reserve currency nation -- has provided additional reserves with dollars flowing from its deficits. But, when these dollars flow to high gold ratio countries, some of them are presented to the United States for conversion into gold. This does not affect the total of reserves in the converting country, but it reduces the United States reserve base.

Since 1949, the U. S. gold reserve has been reduced by $11 billion.

Part of this loss was useful to the world and facilitated world trade by building up reserves of the rest of the world. But this process, when carried out to an extreme, is destabilizing.

As noted, the Group of Ten Report recognized this problem and suggested periodic multilateral review of the reserve policies of its members, so as to ameliorate it. Some individual suggestions for specific correctives also were given, but none attracted wide support. The Report recommended that further study be given to this problem, for there was recognition that national reserve policies should take account of their impact on the world monetary system.

The United States cannot afford to continue the pattern of international payments deficits financed in the first instance by dollar outflows which add to world reserves. This is a major reason for a new type of reserve asset that is not dependent upon U. S. deficits.

I shall turn to reserve creation in a moment. But, before doing so, I wish to point out that creating new reserves does not obviate the need for attaining equilibrium, or even a surplus from time to time, in the balance of payments of the United States.

We need not only an end to the long decline in the U. S. reserves, but also an upward trend in these reserves. Nor will reserve creation put an end to the need for national reserve policies that take account of their impact on the monetary system as a whole.

V. Reserve Creation and World Trade

There is a wide range of opinion with respect to the immediate need for and the impact of reserve creation on world trade. The Joint Economic Committee of the U. S. Congress says the world is in deep trouble as a result of slow action on international monetary reform. Some individuals have gone farther, stating that, in their opinion, real shrinkage in world trade, rather than merely a slowdown in the growth of trade, might be the consequence of a failure of world reserves to grow at something like the recent rates.

On the other hand, a number of people have said that they see no present shortage of reserves in the world and have expressed skepticism as to the imminence of a need to add new sources of reserves.

This variety in points of view arises, in part, from the fact that European reserves have been rising steadily, while U. S. reserves have been declining. But it also reflects the fact that the present rate of growth in reserves in Continental Europe is widely regarded as adding to inflationary pressures.

The practical middle ground among this range of views has been found in the idea of a contingency plan for reserve creation, to be activated when a multilateral determination has been made that there is a need to supplement existing reserves. This concept was proposed by Secretary Fowler last year. It has achieved wide support from the Deputies and Ministers of the Group of Ten, and, more recently, it was supported in the speeches of most of the Governors at the Annual Meeting of the International Monetary Fund.

The 1966 Annual Report of the International Monetary Fund concludes that the level and change in a country's reserves influences that country's policies primarily in two areas -- its internal financial policies, and its policies with respect to capital movements, foreign trade, and foreign aid. In general, high or adequate levels of reserves and growing reserves tend to influence governments to liberalize foreign trade, aid, and capital export policies, and to ease internal financial policies, unless the latter are constrained by inflationary developments.

Reserves may grow in three ways -- by earning them through balance of payments surpluses, by borrowing them, or through a direct allocation of newly-created reserves.

In the first case, where new reserves are earned -- spent by one holder and received by another via payments deficit and surplus -- the effect can be, and frequently is, expansionary on internal incomes, and an impetus is given to liberalization of foreign trade and capital movements. Foreign aid also may be increased. The country losing reserves tends, on the other hand, to follow more restrictive policies.

In the second case, the country borrowing reserves does so in order to meet deficits and adjust more smoothly. This tends to moderate and stretch out such restrictive policies as might have to be imposed in the absence of credit sources.

In the third case -- direct allocation of newly-created reserves -- I would see no reason why expansionary internal policies would have to result -- at least in the short run -- but more liberal trade, aid, and capital movement policies should be encouraged. In the longer run, it is possible that additional reserves from direct allocation would permit generally less restrictive internal policies, as well as leading to more liberal foreign trade, aid, and capital exports.

It seems to me that some of the fears expressed about created reserves reflect the feeling that they might be spent quickly, thus resulting in too rapid transfer of real resources from surplus to deficit countries and possible inflationary pressures in the surplus countries. This need not be the case -- if the newly-created reserves are not in excessive quantity and if recipients follow reasonably sound internal and external policies.

The International Monetary Fund presents some useful data in its current Annual Report as to the use of reserves in the past. These data show that most countries, outside the United States, have tended to maintain their reserves within a range of about 30 to 60 percent of their annual imports. On the average, in 1965, the developed countries as a group (including the United States) held reserves equal to 43 percent of annual imports, and the less developed countries, as a group, stood at 42 percent of imports. In both cases, the figures today are lower than in 1951, when they were 68 and 64 percent, respectively, or in 1959, when they were 60 and 50 percent, respectively. Even excluding the United States and the United Kingdom, the other industrially-advanced countries in the Group of Ten showed a ratio of 41 percent in 1965, as against 30 percent in 1951, and 45 percent in 1959.

These Fund studies suggest that there will be a considerable tendency for new reserves to spread themselves around the world in proportion to the percentage rise in a country's imports. Since the trade figures seem likely to continue to grow more rapidly than the rate of reserve creation, most countries are likely to wish to add the new reserves to their existing reserves, at least over a period of years, in order to slow down the declining ratio of reserves to imports. Hence, I doubt that reserve creation will, in fact, permit surplus countries to acquire more reserves than they wish to hold.

Because of the large size of the U. S. economy, we would receive a substantial proportion of newly-created reserves, but I would expect the United States also to build up its reserves, over a period of years. Hence, on this score also, I would consider the fear of inflationary pressures arising from new reserves to be largely groundless.

The Fund suggests that a shortage of international liquidity is more likely to manifest itself, at least initially, in the form of restrictions on trade and capital transactions than in generalized deflationary symptoms in the world economy.

But a factor of some instability could result from the reserve policies of some major trading countries, where tendencies for shifts in reserves and the composition of reserves could place strains on the entire system. Therefore, as the Group of Ten report suggests, it is desirable to have international review of such policies. The great trading nations need to follow both adjustment and reserve policies designed to minimize destabilizing tendencies. The fixed relationship between gold and the convertible U. S. dollar remains a firm foundation of the system.

3. The present sources of reserve growth -- newly-mined gold and dollars flowing from large U. S. deficits -- are unlikely to produce sufficient reserve supply to satisfy the world's needs and desires. Therefore, the case for creation of a new form of reserves seems clear -- the question really is "when" rather than "if." Contingency planning for this purpose is going on. It should be encouraged, so as to produce during this next year an agreed-upon plan for activation when needed.

Adequate reserve growth is important, especially in the longer run, to the growth of liberal trade and to the flow of international investment. Foreign traders and investors have a definite interest in assuring an adequate growth trend in world reserves.

--oOo--

1. The deficit in the United States balance of payments is running at a rate just half of what it was in 1964 and about one-third of what it was in 1960. This is a creditable achievement in the face of the foreign exchange costs of our military and aid responsibilities and commitments and our position as a supplier of capital. It is even more notable in the face of the foreign exchange costs of Vietnam.

This record has been achieved by programs involving both general and selective measures. We intend to press on toward our goal of equilibrium. The questions concerning this goal are related to time and means. These questions should not be answered solely by the United States, because the rest of the world has both interests and responsibilities in the answers. The most desirable course is to work in cooperation with the surplus countries to achieve the best way of sharing the needed adjustments.

2. The present gold exchange standard has functioned, and is functioning, well. It is an evolving system, which has been made sufficiently flexible to meet the needs of the world and to underpin the great boom in world trade. It can -- and undoubtedly will -- continue to improve through evolutionary development.

There is a good chance that the policies of the surplus countries would tend to become more liberal under a system which would give assurance that the aggregate of world reserves might be expected to expand in an orderly fashion, thereby producing slowly rising reserves, even if balances of payments were in equilibrium.

As to contingency planning, itself, the second phase of negotiations is now about to begin. A series of joint meetings is scheduled, which will bring together the Executive Directors of the International Monetary Fund and the Deputies of the Group of Ten. Last summer's report of the Deputies prepared the way for this second stage by reaching a wide consensus on a number of principles and elements of a contingency plan. I will not attempt to recapitulate them here. I should note, however, that there remain two principal questions to be resolved. They concern some aspects of participation in the plan, especially the procedure for arriving at decisions to activate a contingency plan, and the general rules of behavior governing the use and acquisition of new reserve assets by individual countries.

VI. Conclusion

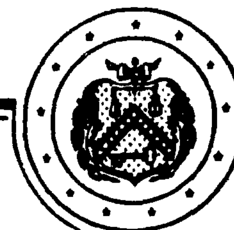
To conclude, I want to make three simple points.

This reflects the fact that countries utilize selective techniques to adjust deficits in their balances of payments and are reluctant to apply general fiscal and monetary policies to situations where domestic considerations may not call for the same general policies as does the country's international position. This is an important conclusion and is of special interest to foreign traders and investors.

But, it may be asked, how can more reserves result in more liberal trade or investment policies, unless the country concerned uses the reserves to finance a larger deficit -- which I have just said is not very likely on a substantial scale over a period of years.

I think the answer is to be found in the probable reactions of governments in various balance of payments positions. When deficit countries have the protection of a more adequate cushion of reserves, the danger of competitive and cumulative escalation of restrictions will be reduced. Countries in reasonably good balance of payments equilibrium -- experiencing moderate deficits and surpluses over a series of years -- are less likely to over-react to deficit positions which may, in fact, prove transitory. I do not believe that most surplus countries would accumulate excessive reserves as an end in itself.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, October 31, 1966.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury bills, one series to be an additional issue of the bills dated August 4, 1966, and the other series to be dated November 3, 1966, which were offered on October 26, 1966, were opened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, or thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing February 2, 1967		182-day Treasury bills maturing May 4, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.685	5.202%	97.220	5.499%
Low	98.673	5.250%	97.210	5.519%
Average	98.677	5.234% 1/	97.213	5.513% 1/

23% of the amount of 91-day bills bid for at the low price was accepted
36% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 20,967,000	$ 10,967,000	$ 16,958,000	$ 4,830,000
New York	1,526,956,000	875,580,000	1,572,213,000	734,187,000
Philadelphia	25,804,000	13,804,000	16,215,000	7,815,000
Cleveland	24,144,000	23,990,000	39,068,000	21,087,000
Richmond	17,458,000	13,458,000	14,165,000	6,661,000
Atlanta	40,931,000	24,191,000	41,602,000	16,442,000
Chicago	307,625,000	184,005,000	310,567,000	59,746,000
St. Louis	48,508,000	32,607,000	68,607,000	54,650,000
Minneapolis	24,010,000	16,700,000	11,300,000	5,916,000
Kansas City	29,939,000	28,399,000	17,646,000	17,646,000
Dallas	24,238,000	14,006,000	15,570,000	10,570,000
San Francisco	116,200,000	62,806,000	130,273,000	61,046,000
TOTALS	$2,206,780,000	$1,300,513,000 a/	$2,254,184,000	$1,000,596,000 b/

a/ Includes $253,655,000 noncompetitive tenders accepted at the average price of 98.677
b/ Includes $148,325,000 noncompetitive tenders accepted at the average price of 97.213
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 5.38% for the 91-day bills, and 5.75% for the 182-day bills.

F-679

TREASURY DEPARTMENT
Washington

FOR USE IN AFTERNOON NEWSPAPERS
OF MONDAY, OCTOBER 31, 1966

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT THE INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA
ANNUAL MEETING
IN THE STATLER HILTON HOTEL, DALLAS, TEXAS
MONDAY, OCTOBER 31, 1966, AT 11:00 A.M., CST

AMERICA'S NEW WAR OF INDEPENDENCE

When future historians come to describe the second half of the Twentieth Century in the United States, I believe perhaps they will characterize it as the era when the revolutionary became the commonplace.

Revolutionary advances have become part of our workaday world. The horizons of knowledge and technology -- and of the planet we live on -- are themselves goals we confidently expect to reach.

We have driven forward into the nuclear age on the thrust of the energy we have learned to capture from nature and to harness to our many purposes. No one knows this better than you. Your industry merits an important share of the credit for our nation's progress.

Since we emerged from World War II and passed the mid-century mark, we have witnessed wondrous changes at an accelerating pace which often outstrips the imagination. Miracles of medicine, chemistry, physics, engineering -- to name only a few fields of endeavor -- have become almost everyday occurances.

The high expectation which technological progress has fostered enables us now to look forward confidently to remarkable changes of a different sort. These are improvements in the quality of American life -- changes which, in the light of mankind's history, are no less revolutionary or miraculous than nuclear energy, space flight, or modern medicine.

I believe the progress underway in the quality of life in the United States is the most exciting and hopeful development taking place anywhere in the world today.

It is also, very likely, the most exciting and hopeful development of any other day. What we are doing to improve men's lives, here and now in the United States, is making more lives better, more quickly, in more ways and to a greater extent than have all the great revolutions of the past put together.

Further, what the people and the government of the United States have joined hands to accomplish in the last few years is the oldest American tradition, the tradition of creative revolution.

For let me point out to you that the American War of Independence was, if not unique, at the least a very rare thing in the annals of human struggle. It was a revolution that did not require for its success or perpetuation the destruction of any class, the destruction of property rights, or the divorce of any part of the American people from the protection of the laws. It was a revolution that left the entire responsible political spectrum -- from the conservatism of Alexander Hamilton to the liberalism of Thomas Jefferson -- freely open for continued use.

> The deep and sweeping and rapid changes that are taking place currently within our economy and our society add up to a new American War of Independence. Once again, the American revolution neither seeks nor needs for its success victims of any kind. It leaves open, for continued appeal to every variety of view, the entire responsible political spectrum, in turn leaving the definition of the word "responsible" to the free decision of the American people at the polls.
>
> Once again, we are carrying out a creative revolution.
>
> Where once we sought independence from another nation, today we seek complete independence from mankind's past of ill health, poverty, and ignorance; from the life which John Hobbes characterized as "nasty, brutish, and short."

The new American War of Independence seeks independence from the fear and the hatred and the degradation of racial discrimination. It seeks independence from the social rot, and the human and economic waste, of involuntary poverty. The new American War of Independence seeks independence from the dangers of ignorance, independence from the pain and waste of avoidable illness and of lives cut unnecessarily short. It seeks to improve the quality of American life through independence from ugliness and bad taste, from poisoned air, and from unclean waters.

Outside our borders we seek the great boon that makes every other progress and benefit possible. Where Americans once fought a War of Independence, we now fight for independence from war.

We seek independence from war as the foundation stone of a world community of nations, an interdependent international community that will be as different, as averse to destruction, and as oriented to creative change as was -- and is -- the American society started by our War of Independence.

We seek independence from war not just for ourselves, but for everyone, without any exception -- for Eastern as well as for Western Europe, for South as well as for North America, for communist as for non-communist China, for Pakistan as for India, for Arab as for Jew, for East as for West. We seek independence from war because war is mankind's deadliest sickness, and because so long as any part of mankind -- however remote and alien or weak -- is afflicted with war, no part of mankind -- however great and strong -- can count itself entirely well.

It is obvious that this new American War of Independence will be expensive in terms both of human and material resources, that it will test the private and the governmental sectors of our society and economy.

Can we afford it? Do we have the resources to do so much, to go so far, so fast?

I think the answer, demonstrably, is: Yes, we can.

I think the further answer is that we can undertake the gigantic public and private tasks, at home and abroad, that I have just suggested, without fear that we will turn our goals into mirages by inviting an inflationary trend. That is, I think that the partnership in economic responsibility that has been built up in the 1960s between your government and the private sector shows that it is possible to generate the added production needed to pay for all our programs, as we go along, out of the proceeds of our economic growth and the growth of our productivity.

Let us test the realism of these opinions by looking at some very recent and careful independent estimates of the costs of the tasks which the new American War of Independence sets before us.

I refer to a new study that attempts to assess the probable costs of all our major aspirations. It has just become available from a private, business-sponsored research organization of long standing, the National Planning Association.

This booklength study gives a chapter each to calculating the rise in our Gross National Product that would be needed to meet the following American economic aspirations, and to carry out our international responsibilities such as defense and foreign assistance, through 1975:

-- Continued improvement of our standard of living, and reduction of poverty in the United States, so that by 1975 we have an average family income of $10,000, together with an 8 percent savings rate, and an increase in leisure time reducing hours of work by 1 percent a year. This is the biggest single item, estimated to call for an 85 percent rise by 1975 in consumer outlays -- including savings -- over 1962. In terms of dollars of constant purchasing power, this is an increase from $357 billion in 1962 to $660 billion in 1975.

Let me quote for you from the capsule summary of the pattern of consumer spending anticipated over the next decade by this study:

> "As income rises, a smaller share of family budgets would probably be allotted to non-durables such as food. Private spending for books, education, vacations, and personal care would be likely to rise by more than the overall average. Expenditures for auto repair and service and for parking, like those for automobile purchases -- to increase the stock of cars by 50 million by 1975 -- would loom larger in family outlays....
>
> "Spending for durables is projected to show the largest percentage increase in consumer expenditures, rising from 13 percent of the total in 1962 to 15 percent or somewhat more of the larger volume of consumer spending in the 1970s. As average family incomes rise to an anticipated $10,000 a year, there will be an increase in the funds set aside for private arrangements to protect economic security. Annual premiums for life insurance, for example, are expected to increase by over two thirds."

The other principal calls upon the economy anticipated in the next decade are:

-- Maintenance and re-equipment of our industrial installation to provide for an economy capable of producing more than $1 trillion worth of goods and services by 1975. This, the cost of keeping capacity to produce equal to our demand, is expected to increase private investment by over $100 billion in 1975 compared to 1962.

-- Outlays both public and private for urban development that double between 1962 and 1975, including tripling of outlays for improving transportation within our cities

-- A rise in social welfare improvements that would increase public and private outlays in this area from about 7 percent of Gross National Product in 1962 to approximately 9.5 percent of GNP in 1975.

-- A rise in outlays for improved health, and lengthening of life, that would increase public and private expenditures in this area from 5.8 percent of GNP in 1962 to 8.7 percent in 1975.

-- A massive increase, amounting to some 170 percent, in our public and private outlays for education.

-- Increases in public and private spending to provide a transportation system that would give incentives to users to employ whatever form of transportation gives the best service at the lowest public and private cost, and that translates scientific knowledge into transportation engineering. This, it is estimated, would involve more than doubling transportation outlays from 1962 to 1975, the biggest item being outlays for private cars, but including the introduction of such technological advances as hydrofoils and air cushion vehicles.

-- National Defense costs that rise to $67.5 billion in 1975 if nuclear weaponry proliferates among the nations and tensions do not subside, or that decline to $39 billion if tensions abate enough to make some disarmament safe.

-- Other increases by 1975 over 1962 levels including:

Housing: up from 5.3 to 6.3 percent of Gross National Product;

<u>Research and Development</u>: an increase from 3 to 4 percent of GNP;

<u>Natural Resources</u>: outlays in 1975 nearly triple those of 1962;

<u>International Assistance, economic and military</u>: a rise from 1 percent of GNP to $1\frac{1}{4}$ percent;

<u>Space exploration</u>: a rise from $$3\frac{1}{4}$ billion in 1962 to about $6 billion in 1975 if the program proceeds at a slow pace, or to $9-1/3 billion if space exploration is pushed as fast as possible.

<u>Other programs</u>: including outlays on agriculture, manpower retraining and area redevelopment, rising from some $7.3 billion in 1962 to nearly $11 billion in 1975.

This is the first study of its kind. The estimates are careful, but they are estimates, not reality. Nevertheless, I think they are valuable because they give us independently arrived-at working magnitudes of the total size of the work load we are placing on our economy.

> The total of the above estimates of the cost of keeping current with our aspirations for economic and social improvement, while keeping faith with our international obligations, would require a Gross National Product of some $1 trillion, $127 billion in 1975.

That is a breath-taking amount, for we are not yet used to dealing in trillions. Can we be producing that much by 1975?

This study, like most other current thinking, assumes that the record of tremendous, sustained economic advance all sectors of the United States economy have enjoyed -- together with price stability unmatched elsewhere in the world -- since 1960 will continue and that there is nothing unrealistic about expecting to expand our economy at no less than 4 percent a year while at the same time maintaining price stability.

Let me point out that, in fact, we have averaged 5 percent real economic growth -- growth adjusted for the effect of price changes -- since 1960.

What does this mean with respect to the costs we have just been assessing of our new American War of Independence? It indicates that we can undertake these obligations without fear that we are biting off more than we can digest without incurring an inflationary stomach ache.

> In the third quarter of this year our Gross National Produce rose to a seasonally adjusted annual rate of $746 billion. Between now and 1975, if we average 4 percent real growth per year -- which is less than we have actually been averaging -- we will have a trillion-dollar economy. Many independent projections confirm our attainment of that level.
>
> That is close enough to the total of the above estimates to be within the margins for error -- one way or the other -- of projections involving the time span, the magnitudes and the uncertainties entailed in such a look into the future.

Let us digress here slightly for a moment to consider a matter of great direct interest to you. Given the fundamental role of energy use in the American economy, what will be the energy needs in a trillon-dollar economy?

According to very recent figures developed in the Bureau of Mines, which I just received from the Department of the Interior, gross energy resource consumption of the United States will increase from 13,600 trillion kilogram calories in 1965 to almost 22,200 trillion kilogram calories in 1980. That is an increase of more than 60 percent, and an average annual increase of 3.3 percent.

Domestic petroleum demand will rise from about 4.2 billion barrels in 1965 to almost 6.7 billion barrels in 1980, an increase close to 60 percent. Domestic natural gas demand will go up from 16 trillion cubic feet in 1965 to nearly 25 trillion cubic feet in 1980. That is an increase of well over 50 percent.

Looking beyond to the year 2000, an excellent new publication by Resources for the Future, Inc., tells us that U. S. requirements of oil are likely to be 10 billion barrels and almost 35 trillion cubic feet of natural gas.

If the trend in consumption from 1950 to 1960 continues, according to this study, energy use in Northern America will be almost three-quarters more in the year 2000 than it was in 1960.

This same study projects a likely consumption of energy for the world in the year 2000 which is more than five times greater than the 1960 level.

These figures are equally as interesting as those on the costs of meeting our national goals and the level of economic activity necessary to meet them. They strongly support the assumption that the important role of your industry in the economy will continue in the future.

All these projections represent, at the same time, both a promise and a challenge to all of us.

They promise a better life for all Americans in a better world. But they challenge the best of our abilities.

I have deliberately called the great endeavor we are engaged in America's New War of Independence. No war is easy, even when the term is used only figuratively. Wars are won with gritted teeth and rolled-up sleeves, by capitalizing on strengths and applying effective remedies to weaknesses.

But the reward of victory is attainment of aspirations we all share. It is achievement of the Great Society which President Johnson has described for us and toward which he has shown the way.

If we refuse to accept goals that are beneath our capacities, then we can look forward confidently to winning the new American War of Independence. That is a declaration of high expectations, worthy of our time, our resources, and our traditions.

oOo