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A00531

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH February 28, 1967

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,994	9	.18
Series F and G-1941 thru 1952	29,521	29,461	59	.20
Series J and K-1952 thru 1954	2,236	2,193	43	1.92
UNMATURED				
Series E 3/:				
1941	1,861	1,618	243	13.06
1942	8,217	7,166	1,050	12.78
1943	13,223	11,565	1,657	12.53
1944	15,424	13,377	2,047	13.27
1945	12,103	10,302	1,801	14.88
1946	5,469	4,453	1,015	18.56
1947	5,170	4,030	1,141	22.07
1948	5,334	4,068	1,266	23.73
1949	5,259	3,935	1,325	25.19
1950	4,597	3,379	1,218	26.50
1951	3,979	2,924	1,055	26.51
1952	4,169	3,031	1,138	27.30
1953	4,754	3,352	1,402	29.49
1954	4,840	3,320	1,520	31.40
1955	5,039	3,367	1,671	33.16
1956	4,854	3,165	1,689	34.80
1957	4,556	2,858	1,699	37.29
1958	4,421	2,624	1,797	40.65
1959	4,134	2,422	1,712	41.41
1960	4,130	2,310	1,821	44.09
1961	4,159	2,178	1,981	47.63
1962	4,004	2,040	1,964	49.05
1963	4,449	2,046	2,403	54.01
1964	4,343	1,938	2,405	55.38
1965	4,247	1,741	2,506	59.01
1966	4,124	1,007	3,117	75.58
1967	-	-	-	-
Unclassified	773	855	-82	-
Total Series E	147,634	105,072	42,562	28.83
Series H (1952 thru May, 1959) 3/	5,485	2,731	2,754	50.21
H (June, 1959 thru 1967)	6,023	941	5,083	84.39
Total Series H	11,508	3,672	7,836	68.09
Total Series E and H	159,142	108,744	50,399	31.67
Series J and K (1955 thru 1957)	1,511	1,006	505 4/	33.42
All Series: Total matured	36,760	36,648	111	.30
All Series: Total unmatured	160,653	109,750	50,903	31.69
All Series: Grand Total	197,413	146,398	51,014	25.84

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

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH March 31, 1967

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,995	9	.18
Series F and G-1941 thru 1952	29,521	29,463	58	.20
Series J and K-1952 thru 1954	2,236	2,200	36	1.61
UNMATURED				
Series E 3/:				
1941	1,862	1,621	240	12.89
1942	8,220	7,180	1,040	12.65
1943	13,231	11,587	1,645	12.43
1944	15,427	13,406	2,021	13.10
1945	12.107	10,327	1,779	14.69
1946	5,472	4,469	1,002	18.31
1947	5,174	4,048	1,126	21.76
1948	5,338	4,085	1,253	23.47
1949	5,263	3,952	1,312	24.93
1950	4,600	3,394	1,206	26.22
1951	3,982	2,938	1,044	26.22
1952	4,173	3,045	1,127	27.01
1953	4,759	3,370	1,389	29.19
1954	4,845	3,342	1,504	31.04
1955	5,045	3,392	1,652	32.75
1956	4,861	3,198	1,663	34.21
1957	4,565	2,884	1,681	36.82
1958	4,427	2,649	1,779	40.19
1959	4,139	2,439	1,702	41.12
1960	4,137	2,326	1,811	43.78
1961	4,166	2,201	1,965	47.17
1962	4,011	2,059	1,951	48.64
1963	4,456	2,072	2,384	53.50
1964	4,350	1,966	2,384	54.80
1965	4,255	1,783	2,472	58.10
1966	4,511	1,215	3,295	73.04
1967	244	-	244	100.00
Unclassified	577	575	2	.35
Total Series E	148,198	105,524	42,674	28.80
Series H (1952 thru May, 1959) 3/	5,485	2,752	2,733	49.83
H (June, 1959 thru 1967)	6,075	968	5,107	84.07
Total Series H	11,560	3,720	7,840	67.82
Total Series E and H	159,758	109,243	50,514	31.62
Series J and K (1955 thru 1957)	1,511	1,036	475 4/	31.44
All Series — Total matured	36,760	36,657	102	.28
All Series — Total unmatured	161,269	110,280	50,990	31.62
All Series — Grand Total	198,029	146,937	51,092	25.80

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

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH April 30, 1967

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

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5,003	4,995	8	.16
Series F and G-1941 thru 1952	29,521	24,464	57	.19
Series J and K-1952 thru 1954	2,236	2,205	31	1.39
UNMATURED				
Series E 3/:				
1941	1,862	1,623	239	12.84
1942	8,223	7,186	1,037	12.61
1943	13,238	11,596	1,642	12.40
1944	15,430	13,418	2,012	13.04
1945	12,110	10,338	1,773	14.64
1946	5,475	4,476	999	18.25
1947	5,178	4,056	1,122	21.67
1948	5,342	4,091	1,250	23.40
1949	5,267	3,959	1,308	24.83
1950	4,604	3,401	1,203	26.13
1951	3,985	2,944	1,041	26.12
1952	4,176	3,052	1,124	26.92
1953	4,763	3,379	1,384	29.06
1954	4,850	3,351	1,499	30.91
1955	5,050	3,403	1,646	32.59
1956	4,866	3,211	1,655	34.01
1957	4,570	2,897	1,673	36.61
1958	4,433	2,660	1,773	40.00
1959	4,149	2,448	1,701	41.00
1960	4,143	2,334	1,809	43.66
1961	4,172	2,213	1,959	46.96
1962	4,014	2,069	1,945	48.46
1963	4,464	2,092	2,372	53.14
1964	4,358	1,983	2,374	54.47
1965	4,262	1,806	2,456	57.63
1966	4,559	1,335	3,224	70.72
1967	566	18	548	96.82
Unclassified	582	582	-	-
Total Series E	148,690	105,921	42,769	28.76
Series H (1952 thru May, 1959) 3/	5,847	2,888	2,959	50.61
H (June, 1959 thru 1967)	6,756	871	4,886	72.32
Total Series H	11,603	3,759	7,844	67.60
Total Series E and H	160,293	109,680	50,613	31.58
Series J and K (1955 thru 1957)	1,512	1,063	449 4/	29.70
All Series — Total matured	36,760	36,663	96	.26
All Series — Total unmatured	161,805	110,743	51,062	31.56
All Series — Grand Total	198,565	147,406	51,159	25.76

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

C O R R E C T I O N

I N

STATEMENT BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ON TITLE V OF H.R. 5710 RELATING TO
THE TAX TREATMENT OF THE ELDERLY
MARCH 1, 1967

On Page 5, in paragraph number 3 (retirement income), the first sentence should read:
"This complex provision grants a maximum credit against income tax equal to 15 percent of an individual's first $1,524 of eligible retirement income and 15 percent of the first <u>$2,286</u> for a married couple where only one spouse qualifies."

(Not the first $2,268 for a married couple)

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TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
ON TITLE V OF H.R. 5710 RELATING TO
THE TAX TREATMENT OF THE ELDERLY
MARCH 1, 1967

Mr. Chairman: I appreciate this opportunity to present the details of the President's recommendations for improving the income tax treatment of the elderly which he included in his Message on Older Americans.

Congress has been mindful of the financial problems associated with old age and has created far-reaching direct programs, such as the Social Security and Medicare systems, aimed at their solution.

Another significant form of assistance to the elderly has been provided by special income tax benefits to those over the age of 65. This tax program costs the Federal Government approximately $2.3 billion a year in tax revenues. Yet it has been developed in a piecemeal fashion over the years -- part administratively, part by committees other than this one -- without ever having been subject to an over-all review by this Committee and by Congress to assure that the system is achieving its objective in an equitable and uniform manner. When viewed comprehensively, it seems clear that the present system of tax benefits for the elderly is not directed where the benefits would be

most effective in solving the financial problems of this group. The present system is subject to criticism on many grounds:

-- It grants more relief to those who have retirement income -- pensions, dividends, interest, rents -- than to those who continue working past the age of 65 and whose income, therefore, is in the form of wages and salaries.

-- It is of substantially more value to those elderly with higher incomes than it is to those in the lower income brackets.

-- It is exceedingly complex.

Recognizing that special tax provisions for the elderly are based upon the special financial needs associated with old age, the task then becomes one of directing the tax relief -- in a simple, fair, and uniform manner -- to those who are in the most need of it.

It is to this goal that the President's proposals I am discussing with you today are directed.

These proposals will not change the aggregate revenue cost of the benefits available to the elderly. Rather, they represent a restructuring of the system within the present revenue cost. This would be accomplished by replacing the present complex and discriminatory provisions with a flat exemption -- $2,300 for single persons and $4,000 for married couples -- available to all lower income and middle income elderly alike.

There are about 20 million persons over the age of 65.

Of these, about 4 million pay income tax or join in the filing of a return on which income tax is paid.

The President's proposals will not change the tax-free status of almost 16 million elderly who now pay no tax. Of the remaining group of elderly, about 2.8 million will have tax reductions. Thus, for the great majority of the elderly -- over 18.5 million persons, more than 92 percent of the total -- the President's recommendations will not change their position of being free of income tax burdens, or they will result in a tax reduction.

The tax liabilities for the remaining group of individuals will be increased and thereby brought more in line with those of taxpayers under age 65 with similar amounts of income.

For all of the elderly, the new system would be simple and straightforward.

<u>Present Law</u>

The details and explanation of the tax benefits available to the elderly under present law are these:

1. <u>An extra $600 personal exemption -- and a related $100 minimum standard deduction -- are allowed to each person 65 or over</u>. This provision is obviously of increasing benefit to higher bracket taxpayers. This extra exemption reduces the taxes of those in the highest bracket by $420 but is worth only $98 to a taxpayer in the lowest bracket.

2. <u>Social Security and Railroad Retirement benefits are excluded from income tax</u>. The exclusion from the tax base of these items also is of most benefit to those in the higher tax brackets. A top bracket taxpayer receiving $1,000 a year from social security retirement payments enjoys $700 of tax relief by reason of the exclusion, while one in the lowest brackets may benefit by only $145 from the same exclusion.

There is no sound tax principle that supports a complete exclusion for social security and railroad retirement benefits. These benefits are essentially in the nature of retirement income benefits and are comparable to those paid from a private retirement plan. The exclusion of social security retirement benefits is a tax anachronism granted administratively in the days when benefits were low, and the social security system was in its infancy and viewed as a "welfare" program. The exclusion of railroad retirement benefits was granted by a different committee to create parity of treatment with social security. To continue these exclusions as benefits grow will accentuate (1) the greater tax benefits given to the wealthy and (2) the arbitrary differences in tax treatment of elderly individuals with the same total incomes which now result from taxing various kinds of income differently.

As I have already indicated, the major purpose of the President's proposal is to replace these exclusions -- as well as the other complicated special tax benefits now available to the elderly -- with a

flat special exemption available to all lower and middle income elderly alike. Under the proposal, however, no elderly person whose income consists only of social security or railroad retirement benefits would become taxable -- either on the basis of the present levels of these benefits or those which have been proposed by the President. Furthermore, on an over-all basis, the proposal leaves 90 percent of the present social security recipients untaxed, and reduces taxes for an additional 5 percent on the basis of present levels of social security.

3. A retirement income credit is allowed. This complex provision grants a maximum credit against income tax equal to 15 percent of an individual's first $1,524 of eligible retirement income and 15 percent of the first $2,268 for a married couple where only one spouse qualifies. The sole justification advanced for the retirement income credit is that it provides tax benefits to individuals receiving pension or investment income -- but little or no social security benefits -- somewhat comparable to the exclusion for social security.

This credit, however, discriminates most unfairly against those who continue working after reaching age 65. This arises because wage income is not eligible for the retirement income credit and, in addition, wage income reduces the amount of that credit available

for investment and pension income. Consequently, an individual over 65 whose entire income consists of dividends, interest, and private pension benefits, can under present law receive an unlimited amount of this income and still qualify for the retirement income credit. If single, he does not start paying tax until his income exceeds roughly $3,100. On the other hand, for a single person up to age 72 who is forced to supplement a small pension by working after retirement, the maximum allowable retirement income credit begins to diminish as his wages exceed $1,200 and is completely eliminated if he earns as little as $3,000. He would start paying taxes at $1,600 if his income consisted solely of his wages.

This difference is unwarranted. The elderly person who by economic circumstances is required, or who out of a desire to be active and productive chooses, to continue working should not have withheld from him the tax relief available to one living on dividends and interest or a substantial pension.

Furthermore, the retirement income credit is one of the most complex provisions of the Internal Revenue Code which is applicable to a broad range of individual taxpayers. Its detailed and complicated rules require an entire page on the tax return. Experience indicates that it is so complicated that many of the elderly do not understand it and therefore lose the benefits to which they are entitled.

This present complex, confusing, and discriminatory system -- which is far more favorable to the retirement income of the elderly than to their wages and salaries -- is not a rational structure. This structure of taxing the elderly seems to have been dictated by a chain of events rather than by a considered judgment of this committee or the Congress. As I previously mentioned, the exclusion for social security benefits was established by administrative ruling while the railroad retirement benefit treatment was acted upon by a different committee. The retirement income credit has generally been discussed only in the narrow context of attempting to equate the tax treatment of other forms of retirement income with that already granted to social security benefits.

The President's Proposal

The proposed revision of the income tax treatment of the elderly would eliminate these unfair and complex features of existing law and would provide, instead, a relatively simple and uniform method of giving tax relief to all elderly taxpayers in relation to their need. The exclusions for social security and railroad retirement benefits, the retirement income credit, and the extra $600 personal exemption and $100 minimum standard deduction -- the entire present structure -- would be replaced by a uniform special exemption.

Persons who have attained the age of 65.--The proposal would allow a special exemption of $2,300 to all single taxpayers who have

attained the age of 65 and a special exemption of $4,000 to a married couple where both are over the age of 65. [1/] In the case of a married couple where one is over 65 and one is under 65, the allowable exemption would be $2,300. These taxpayers would, of course, still retain the personal exemption of $600 and the minimum standard deduction, applicable to all taxpayers.

These special exemptions would be reduced dollar-for-dollar for the amount of income -- including social security and railroad retirement benefits -- received during the taxable year in excess of $5,600 in the case of a single individual and $11,200 in the case of a married couple. However, in order to reflect the retiree's own contributions to the social security or basic railroad retirement system, the amount of his special exemption would, in no case, be reduced below an amount equal to one-third of the amount of these benefits included in his income for tax purposes. For a taxpayer without social security or railroad retirement benefits, the special exemption would phase out at the income level of $7,900 for a single person and $15,200 for a married couple.

Additional particulars under the proposal are:

1/ The $2,300 special exemption is numerically equivalent to the present maximum primary social security benefit ($1,600 rounded) and the extra $600 personal exemption and its related $100 minimum standard deduction. To arrive at the $4,000 married couple's exemption, there is added $800 representing the wife's social security benefit and $700 representing her extra $600 personal exemption and related $100 minimum standard deduction, with the total rounded to $4,000.

(1) Only those social security and railroad benefits which are paid as retirement benefits would no longer be excluded. Thus, disability benefits, lump-sum death benefits, and children's benefits would remain excludable from income. The exclusion for these benefits essentially parallels the tax treatment of similar payments made under a private arrangement.

(2) The provision which, under certain conditions, permits a taxpayer to claim an exemption for an elderly parent he is supporting would be revised to allow the parent to receive up to $1,200 -- rather than the present $600 -- of gross income before the exemption is disallowed. This change would reflect the fact that by virtue of being included in income, social security and railroad retirement benefits would be included for the first time in applying the income test.

(3) The minimum income limits for filing a return in the case of individuals over age 65 would be raised from $1,200 to $2,800 [2/] to reflect the higher income levels at which individuals would be completely exempt

2/ The figure $2,800 represents the value of the new special exemption ($2,000), the $600 personal exemption, and a $200 standard deduction available to a married taxpayer filing a separate return. It represents the smallest possible dollar combination (on a rounded basis) of these benefits in the case of any taxpayer. Due to a drafting error, the bill erroneously reflects the new filing level as $2,600 rather than $2,800.

from tax under the proposal. For married couples, the $2,800 would be in terms of their combined income in recognition that their joint income is considered in applying the phase-out rules for the new special exemption.

Persons under the age of 65.--Under existing law, persons under age 65 need not include their social security or railroad retirement benefits in income and, in addition, those individuals receiving a pension under a public retirement system are eligible for the retirement income credit. In keeping with the recommendations for those over age 65, the proposal would eliminate these preferences. It would substitute instead, for the individuals involved, a special deduction equal to the lesser of (1) the actual amount of such benefits received or (2) $1,600. 3/ The $1,600 limitation on the amount of the deduction would be reduced dollar-for-dollar to the extent that income received exceeds $5,600 in the case of a single taxpayer or $11,200 in the case of a married taxpayer, but not below an amount equal to one-third of any social security or railroad retirement benefits included in income.

3/ The $1,600 deduction ceiling is numerically equivalent to the present exclusion for the maximum primary social security benefit ($1,600 rounded) and is more than adequate to reflect the value of the retirement income credit (15 percent of the first $1,524 of retirement income). It represents the same value assigned to these benefits in constructing the special exemption for persons over the age of 65.

Effect of the Proposal

The proposed revision of the tax treatment of all elderly and retired persons represents a balanced revenue program of tax simplification and reform.

Eliminating the retirement income credit while at the same time extending comparable benefits to individuals in the lower and middle income groups -- regardless of the nature of their income -- will:

-- Vastly simplify the tax computation for most individuals receiving retirement income;

-- Eliminate the existing discrimination against those who continue working after age 65.

The loss in tax revenues which will result from extending the uniform special exemption to all lower and middle income persons over age 65 without regard to the source of their income will be balanced by removing the benefits of this special exemption from those individuals whose income levels demonstrate that old age has not created financial hardship.

Under the proposal, all single persons with incomes -- from all sources including social security and railroad retirement benefits -- of $3,222[4/] or less would be exempt from income tax. All married couples, where both are 65 or over, with incomes of $5,777[5/] or less

4/ This reflects the special exemption of $2,300; a personal exemption of $600, and the 10 percent standard deduction of $322 on $3,222 of income.

5/ This reflects the special exemption of $4,000, two personal $600 exemptions, and a 10 percent standard deduction of $577 on $5,777 of income.

would be exempt. These results obtain regardless of source of income -- wages, pensions, social security or railroad retirement benefits, or investment income. This will mean that almost a half million older persons of the 4.2 million persons now taxable will be completely relieved of any income tax liability.

Of the elderly persons above these income levels, nearly all single persons over age 65 with incomes up to $5,800, and nearly all married couples where both are over 65 with incomes up to $11,600, will obtain tax reductions. In addition, many elderly single persons with incomes over this level and up to $7,300, and many elderly married couples with incomes up to $14,000, will also receive tax reductions depending on the composition of their income. In total, of the elderly above the new fully exempt level, nearly 2.3 million would have their income taxes reduced in varying amounts depending on the nature of their income and its consequent treatment under present law.

The remaining 1.4 million older taxpayers will have their taxes increased. They will lose the special tax benefits now available to them since they have no demonstrable need for special tax relief. Of course for many of these the increased social security benefits proposed by the President will completely or materially offset the tax increase.

Since railroad retirement benefit levels are considerably higher than the social security levels, the present tax benefits extended to railroad retirees through the exclusion of their benefits from income tax are likewise greater than for elderly persons receiving social security or other forms of retirement income. For this reason, the income levels at which railroad retirees will be unaffected or will receive tax reductions or will have tax increases under the proposal are somewhat lower than in the case of other elderly persons. The effect of the proposal is thus to place these railroad retirees in the same tax position as social security recipients or other elderly with the same total income. As stated earlier, the proposal leaves completely free of tax those persons receiving only railroad retirement benefits.

Of the 14.5 million aged persons receiving social security benefits, 90 percent would not pay any tax under the President's proposals so that their social security benefits will, in fact, remain nontaxable, assuming the present level of benefits. Another 5 percent of the recipients presently taxable because of other income would have their taxes reduced. For this group also the effect of the proposal will be to continue the exemption for their social security benefits. If there is an increase in social security benefits of the nature recommended by the President, tax increases will be realized by only an additional 1.5 percent of the social security recipients -- about

200,000 persons. Moreover, as stated earlier, no elderly person receiving only social security benefits, either at present or under the President's program, will be subject to tax.

In summary, the President's proposal has been carefully designed to correct three major problems that presently exist under our tax treatment of the elderly:

-- The proposal will simplify the tax return and tax filing problems of all older people.

-- It will end the unfair and serious discrimination against those older perons who, by force of circumstances or desire, continue working after age 65.

-- Finally, it will insure that the benefits extended through our tax system to the elderly -- which will remain at their present $2.3 billion level -- will go to those who, because old age has imposed particular financial problems, need tax relief the most.

TITLE V -- TAX TREATMENT OF THE AGED

Technical Explanation

I. Inclusion of Retirement Benefits Received Under the Social Security and Railroad Retirement Systems in Gross Income.

At present all social security benefits (by administrative ruling) and railroad retirement benefits (by law) are excludable from gross income. Paragraph (a) of Section 503 of the bill creates a new section 82 of the Internal Revenue Code which provides for the inclusion in gross income of virtually all social security and railroad retirement benefits which are in the nature of retirement benefits.

More specifically, the basic retirement annuity paid to a covered worker, as well as the benefit paid to his wife if she is not otherwise eligible on her own right are includible in income for tax purposes. On the other hand, the following types of benefits would not be includible in income:

(1) Disability pensions paid to workers and their families. Under the social security system, a disabled worker and possibly members of his family are entitled to benefits out of the disability fund until the worker reaches age 65. These would be nontaxable. Payments to him and other members of his family after he reaches age 65 convert to retirement benefits payable out of the Old Age and Survivors Insurance Trust Fund, and as such (with the exception of child's benefits) would be includible in income. This treatment corresponds with the "sick pay" provisions applicable to disability payments received under private plans.

(2) Payments to the minor children of a retired, disabled, or deceased employee.

(3) Lump sum death benefits.

<u>Dependency exemption</u>. A taxpayer may claim a personal exemption for any dependent with less than $600 of gross income and for whom he provides half the support. Frequently, this exemption arises in the case of a taxpayer supporting an elderly parent. At present, in applying the "$600 gross income test," social security and railroad retirement benefits are ignored because they are not included in gross income for tax purposes. This would no longer be true under the bill, with the result that the gross income of elderly taxpayers receiving social security will automatically be increased by the amount of these benefits, and, thus, if no change were made the possibility would exist that many elderly persons formerly claimed as dependency exemptions by their children or by others could no longer be so claimed. This result is not *per se* improper, since social security and railroad retirement benefits are as much economic income as are private retirement pension benefits. Nonetheless, in order to prevent in many cases the loss of a dependency exemption by relatives who support an elderly social security or railroad retirement pensioner, section 504(b) of the bill amends section 151(e) of the Internal Revenue Code to provide that persons aged 65 or over may receive up to $1200 of gross income and still be claimed as dependency exemptions.

The bill contains two technical amendments with respect to the inclusion of social security and railroad retirement benefits in gross income. Section 503(b) of the bill is a clarifying amendment intended to foreclose the possible applicability of section 101(b) of the Internal Revenue Code (which provides for an exclusion from income of certain employee death benefits) to social security or railroad retirement annuities paid to the survivors of deceased insured workers. Most annuities paid to survivors of covered workers are paid by reason of the age of the recipient; they are the same annuities as would be paid to the worker's spouse or parents if the worker were alive at retirement. In other words, these annuities are essentially in the nature of retirement benefits and should be taxed as such.

Section 506(c) of the bill conforms the Railroad Retirement Act by modifying the provision exempting railroad retirement benefits from all taxes, so as to reflect their inclusion in gross income for Federal income tax purposes.

II. Repeal of the Retirement Income Credit.

Section 501 of the bill provides for the repeal of section 37 of the Internal Revenue Code, the retirement income credit. The retirement income credit is a very complex provision intended to extend tax benefits, somewhat comparable to the tax benefits resulting from the exclusion of social security and railroad retirement from gross income, to retired individuals who are not covered (or only partially covered) by the social security and railroad retirement programs.

The retirement income credit is, basically, a credit against the taxpayer's tax equal to 15 percent of his first $1524 of retirement income. The $1524 base is raised to $2286 in the case of a married couple with both spouses over 65 but where only one has retirement income or otherwise qualifies for the credit. Retirement income eligible for the credit includes, in the case of a person over 65, pension benefits, rents, interest, and dividends; in the case of a person under 65 it includes only pension benefits received from a public retirement system. The $1524 maximum base is reduced by the amount of social security or railroad retirement benefits received.

The reason that the retirement income credit is so complex is that, because it is intended to parallel the social security exclusion, it incorporates limitations upon the credit comparable to those that the Social Security Act imposes upon the amount of and entitlement to maximum social security benefits. Thus, the credit is only allowable if the individual had received earned income in excess of $600 in each of any ten calendar years before the year in question. In addition, the $1524 base is reduced, pursuant to a specified formula, if wages in excess of $1200 ($900 in the case of an individual under age 62) are received. This $1200 level was intended to equal the level at which social security benefits begin to be cut back because of earned income. The $1524 and $2286 maximum credit bases were derived from the maximum annual social security retirement annuities receivable by a covered worker and by a covered worker and his spouse, respectively, under the Social Security Act as amended through 1958.

III. Repeal of the Extra Personal Exemption and Related Minimum Standard Deduction.

Section 504 (a) repeals the provision allowing each taxpayer over the age of 65 an additional $600 personal exemption. This will automatically result in the elimination of the $100 minimum standard deduction that is related to that personal exemption. Taxpayers over the age of 65 will still be eligible for the basic $600 personal exemption allowable to each taxpayer.

IV. Special Exemption for Individuals Over Age 65.

To replace the tax benefits described above, section 504 (c) of the bill creates a new special exemption (section 154 of the Internal Revenue Code) for persons aged 65 or more. To qualify for the exemption the taxpayer must have attained age 65 before the close of the taxable year involved. For a single person the annual special exemption is $2300. For a married couple where both are over 65, each may qualify for a $2000 annual exemption -- for a total of $4000 on a joint return. Section 153 of the Code is applicable in determining marital status. If the spouses file separate returns each takes a $2000 exemption. 2/ For married couples where only one spouse is over age 65, the one over age 65 may qualify for a $2300 exemption (i.e., the same as a single person), whether or not a joint return is filed. The one under 65 is not entitled to a special exemption but may be entitled to the new retirement income deduction if she is receiving social security, railroad retirement, or public retirement system benefits (see item V for description of this proposal).

The special $2300 exemption which the bill provides for the single person over 65 is approximately equal to the total tax benefits resulting from the following provisions of existing law, which would be eliminated:

1. Exclusion of social security benefits, up to the present annual maximum of $1600 (rounded), from gross income. (Section 503 (a) of the bill eliminates the social security and railroad retirement exclusions).

2. The extra $600 personal exemption allowable to individuals over age 65 (Section 504 (a) of the bill repeals this exemption).

3. The extra $100 minimum standard deduction that is related to the extra $600 personal exemption (Section 504 (a) of the bill also has the effect of eliminating this extra minimum standard deduction).

The special exemption does not replace, but is an addition to the regular $600 personal exemption which is available to all taxpayers at any age.

The $4000 total exemption which the bill provides for a married couple both over 65 is slightly greater than the total tax benefits resulting from the following provisions of existing law, which would be eliminated:

1. The exclusion of the worker's social security benefits, up to the present annual maximum of $1600 (rounded), from gross income.

2/ If both spouses are over age 65 but only one spouse has gross income and the other spouse is not the dependent of another, then the spouse with the gross income may claim a total $4000 special exemption (i.e., his own $2000 plus his spouse's $2000) even on a separate return. This provision parallels the existing section 151 (b) of the Internal Revenue Code, which allows one spouse to claim the other spouse's personal exemption even on a separate return -- as long as the non-filing spouse has no income and is not the dependent of another.

2. The exclusion from gross income of the spouse's social security benefits, up to a maximum of $800 (rounded), which represent the maximum receivable by a spouse who does not qualify for benefits in her own right.

3. The two extra $600 personal exemptions plus the two $100 minimum standard deductions that are related to these extra exemptions.

The total $4000 exemption slightly exceeds the total of these benefits. This gives some recognition to the fact that some spouses will receive, as a result of their own work experience, social security benefits greater than one-half of the other spouse's benefits.

The special exemptions are allowed as deductions from adjusted gross income. However, there is no requirement that the individual itemize his deductions in order to qualify for the special exemption. This method of handling the special exemption — which is the same as that followed for the $600 personal exemption — will permit the standard deduction to be computed on an income base which includes social security or railroad retirement benefits but which has not yet been reduced by the offsetting special exemption. This will, in effect, result in an added benefit to many of those taking the standard deduction.

The allowance of the special exemption is limited to taxpayers at the lower and middle income levels. This is accomplished as follows: For a single person, the special exemption is reduced dollar-for-dollar by the amount of his adjusted gross income in excess of $5600. However, it is never cut back to a figure below one-third of the basic social security or railroad retirement benefits[3/] he has included in his income for that year. This represents a very rough — and generous — allowance for recovery of the employee's contributions to the social security or railroad retirement programs. Thus, for a single person with no social

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3/ Railroad retirement supplemental annuities though includable in gross income, are not included for purposes of computing the one-third cutback floor. No part of such benefits represents a return of the employee's contributions since the supplemental annuity program is entirely non-contributory.

security or railroad retirement benefits, the special exemption will be completely phased out at a $7900 adjusted gross income level. However, if his taxable income includes $1500 of social security benefits, his special exemption will in no event be reduced below $500 (one-third of $1500) no matter how high his adjusted gross income.

For a married couple filing a joint return, where one spouse is 65 or over and the other is under 65 the special exemption will remain at $2300. However, in this case the exemption will be cut back dollar-for-dollar for adjusted gross income in excess of $11,200 (i.e. double the cut back level for a single person) - but not below one-third of the social security and R.R. retirement benefits actually included in income.

For a married couple filing a joint return where both spouses are age 65 or over a total exemption of $4000 is allowable. This in turn is cut back dollar-for-dollar for adjusted gross income in excess of $11,200 but not below one-third of the social security and railroad retirement benefits included in the couple's income. Thus, for a couple with no social security or railroad retirement income, the special exemption will be completely phased out at $15,200 of adjusted gross income. However, if $2400 of their taxable income consists of social security benefits, their combined special exemption will level out at $800 once they reach $14,400 of adjusted gross income.

For a married couple filing separate returns, the cutback is applied separately to each spouse's exemption but on the basis of their combined incomes. That is, each special exemption is cut back by the amount by which one-half of their combined income exceeds $5600. The use of the combined income in their case will remove any artificial incentive to file separate returns in order to take advantage of an uneven distribution of income among the spouses.

The social security and railroad retirement benefits that are being included in income under the bill will also be included in the adjusted gross income base for applying the cutback provisions.

Miscellaneous amendments. Section 506 (a) of the bill amends section 4 of the Internal Revenue Code to permit the Internal Revenue Service to prescribe optional tax tables reflecting the new special exemption. Section 506(b) of the bill is a technical amendment to section 144 of the Internal Revenue Code. Section 144 of the Code presently provides that taxpayers with less than $5000 of adjusted gross income may not use the standard deduction unless they elect to use the optional tax tables. The bill adds an exception to this rule for persons over 65 who, unless the Secretary or his delegate issues tables, will not be permitted to elect the optional tax.

V. Special Retirement Income Deduction for Persons Under Age 65.

Section 503(a) of the bill creates a new section 218 of the Internal Revenue Code. Under this section, each individual under age 65 is entitled to a deduction equal to the amount of social security, railroad retirement, and public retirement system benefits included in his gross income — subject to a ceiling on the deduction of $1600 and a phase-out provision for higher-income taxpayers. The new section contains a definition of "public retirement system" which is identical with the definition presently in the retirement income credit.

This deduction is personal to the taxpayer receiving the specified types of income; thus, married couples cannot combine their deductions to permit the deduction of more than $1600 of benefits received by one of the spouses. For example, if a retired teacher under age 65 is receiving an annual pension of $2000 and his wife, who is also under 65, receives no social security, railroad retirement or public retirement system benefits, the husband may qualify for a deduction of no more than $1600 and the wife is allowed no retirement income deduction — even if a joint return is filed.

Under the law of community property states, the husband and wife in the above example would each be considered as having $1000 of retirement income. In order to provide for equal treatment of all married couples, no matter in what state they reside, the new section 218 provides that their retirement income shall not be so prorated for purposes of applying the new retirement income deduction. Thus, the result in the above example will be the same in all states. Under present law, some married taxpayers living in community property states are able, in effect, to claim two retirement income credits, instead of the one credit available to married couples in non-community property states, under the facts of the above example. This would be the case if neither spouse had significant wage income. On the other hand, community property rules may operate to the detriment of such a couple. If the retiree has retirement income but his wife has wage income, her wage income will presently operate to reduce his retirement income credit base. The proposed repeal of the retirement income credit, and the special community income provision of the new section 218 will eliminate these anomolies.

Section 502(a) of the bill amends section 62 of the Internal Revenue Code to provide that the new retirement income deduction will be allowed as a deduction in arriving at adjusted gross income. Thus, the retirement income (social security, railroad retirement and public retirement pensions) which is includable in gross income and then offset by the new section 218

deduction will not be included in adjusted gross income upon which the 10 percent standard deduction is computed. If this were not true, the mere receipt of social security, railroad retirement, or public retirement system benefits could produce a tax lower than that which would have been payable if this income were not received. On the other hand, section 502(c) of the bill amends section 170(b)(1) of the Code and section 502(d) of the bill amends section 213 of the Code to provide that for purposes of computing the limitations on the charitable contribution and medical expense deductions, respectively, adjusted gross income is computed without regard to the retirement income deduction. Since the charitable contribution and medical expense limitations are intended to represent a certain proportion of the taxpayer's spendable income it would not be appropriate to reduce the base against which they are applied by the retirement income deduction, which does not represent a cost of acquiring gross income but is merely a special benefit related to the particular source of the income. Furthermore, if the retirement income deduction were to reduce adjusted gross income for purposes of the medical expense deduction floor, in many cases the undesirable situation would result that a taxpayer's medical expense floor would increase when he reaches 65 and becomes entitled to the $2300 special exemption (which does not reduce adjusted gross income) instead of the retirement income deduction.

The new $1600 retirement income deduction replaces:

1. The exemption from gross income of social security retirement benefits received by a person under 65.

2. The comparable railroad retirement exemption.

3. The retirement income credit for persons receiving pensions under a public retirement system.

The $1600 ceiling represents the maximum benefits now available as a result of either the exclusion of social security from income (maximum of $1600 (rounded)) or the retirement income credit (which is available for the first $1524 of retirement income).

As in the case of the special exemption for those over age 65, the $1600 retirement income deduction ceiling will be reduced dollar-for-dollar to the extent that adjusted gross income, including social security and railroad retirement benefits, exceeds $5600 in the case of a single taxpayer and $11,200 in the case of a married couple. The deduction ceiling will never be reduced, however, to an amount less than one-third of any social security and railroad retirement benefits included in the taxpayer's gross income. In the case of a married person, the cutback is applied on the basis of one-half of the combined adjusted gross income of both spouses.

In either case, the cutback operates to reduce the deduction ceiling. Thus, for example, if a single person under 65 has $6000 of adjusted gross income, including $1000 of social security benefits, his retirement income deduction will be $1000 even though his income exceeds the $5600 cutoff level by $400. This is because his deduction ceiling has only been reduced to $1200 which is still above his otherwise allowable deduction.

Since the new retirement income deduction is a deduction arriving at adjusted gross income rather than an exemption, persons entitled to the deduction may use the optional tax tables.

VI. Filing Requirement.

Under existing law a person age 65 or over must file a tax return if his income exceeds $1200. As a consequence of the present proposal this requirement can be raised and a person 65 or over will only be required to file a tax return if his income, together with his spouse's income if married, exceeds $2800. Under no conceivable set of circumstances will any person age 65 or over have tax liability if his income (or their income in the case of a married couple) is less than this amount. 4/

VII. Effective Date.

The new special exemption and retirement income deduction -- as well as the repeal of the present provisions -- would apply to taxable years beginning in 1968. This seems most compatible with the July 1, 1967 effective date for the social security increases.

4/ Due to a drafting error the bill sets the filing requirement at $2600 rather than the correct amount which is $2800.

The $2800 amount reflects the fact that a married taxpayer 65 or over whose spouse is also 65 or over and who files a separate return is entitled to only one-half of the couple's $4000 aged exemption, his $600 personal exemption, and an additional allowance to reflect the 10 percent standard deduction. The filing requirement was arrived at by rounding these three elements to the lowest even amount that could appropriately represent a filing requirement for all persons 65 or over.

March 1, 1967

APPENDIX

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Tax Changes Under Proposal for Taxpayers With Maximum Social Security Benefits and Retirement Income, Single Individual, Age 65

Table A-5

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Table A-7

Tax Changes Under Proposal for Taxpayers With Average Social Security Benefits and Retirement Income, Married Couple, Husband Age 65, Wife Under 65

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Table 1

Income Levels Below Which Taxpayers Over 65 Would Have a Tax Reduction and Above Which a Tax Increase Under the President's Proposals

Single Individuals

	Income level separating tax cut from increase	Social security increase proposed	Income level above which after-tax income decreases as a result of tax proposal and Soc. Sec. increases 1/
ximum primary social security benefit ($1,630) 2/			
1. No retirement income credit 3/	$5,833 7/	$244	$ 6,580
erage social security benefit ($1,008) 4/			
1. Max. retirement income credit 5/	$5,988	$151	$ 6,485
2. No retirement income credit 5/	6,393	151	6,793
nimum social security benefit ($528) 6/			
1. Max. retirement income credit 5/	$6,041	$312	$ 6,975
2. No retirement income credit 5/	6,825	312	10,400 8/
social security benefits			
1. Max. retirement income credit 5/	$6,095	--	$ 6,095
2. No retirement income credit 5/	7,300	--	7,300

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Present income level before social security increase. The calculations assume use of the standard deduction. These levels are higher for itemizers.
The maximum which was received by a significant number of beneficiaries.
No retirement income credit because social security income exceeds $1,524.
Average Primary retirement benefits for those receiving such benefits.
Maximum retirement income when earnings do not exceed $1,200 or taxpayer is over age 72. No retirement income credit when eliminated by earnings.
Minimum primary retirement benefits.
For taxpayers using the standard deduction with incomes between $3,222 and $3,234 there would be a slight tax increase which could be as much as $1.
This point is higher than other cases because the increase in social security payment is relatively large and the change in taxable income relatively small. In one case the $312 income increase is reduced by the lost $149 retirement income credit while the other, having no RIC, is free to apply the full $312 to an increase in taxable income.

Table 2

Income Levels Below Which Taxpayers Over 65 Would Have a Tax Reduction and Above Which a Tax Increase Under the President's Proposals

Married Couple, Both Age 65

	Income level separating tax cut from increase	Social security increase proposed	Income level above which after-tax income decreases as a result of tax proposal and Soc. Sec. increases 1/
Maximum primary and supplemental social security benefit ($2,445) 2/			
1. No retirement income credit 3/	$11,635	$367	$12,651
Average social security benefit ($1,530) 4/			
1. Max. retirement income credit 5/	$11,875	$230	$12,590
2. No retirement income credit 5/	12,470	230	13,056
Minimum social security benefit ($792) 6/			
1. Max. retirement income credit 5/	$12,029	$467	$13,380
2. No retirement income credit 5/	13,205	467	14,770
No social security benefits			
1. Max. retirement income credit 5/	$12,327	--	$12,327
2. No retirement income credit 5/	14,000	--	14,000

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1/ Present income level before social security increase. The calculations assume use of the standard deduction. These levels are higher for itemizers.
2/ Maximum which was received by a significant number of beneficiaries.
3/ No retirement income credit because social security income exceeds $2,286. Assumes the husband receives retirement income and wife receives none.
4/ Average primary and supplemental benefits for those receiving such benefits.
5/ Maximum retirement income when earnings do not exceed $1,200 or taxpayer is over age 72. No retirement income credit when eliminated by earnings.
6/ Minimum primary and supplemental retirement benefits.

Table A-1

Present Tax and Tax Change Under Proposal for Selected Taxpayers With Wage Income Only 1/

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
	Single Individual, Age 65						Married Couple, Both Age 65					
Wage income	Present tax for elderly taxpayers 2/	Regular tax paid by taxpayers under 65	Difference in tax of over 65 and under 65 (3)-(2)	Tax under proposal	Difference in tax of over and under 65 after proposal (3)-(5)	Tax change due to proposal (5)-(2)	Present tax for elderly taxpayers 2/	Regular tax paid by taxpayers under 65	Difference in tax of over 65 and under 65 (9)-(8)	Tax under proposal	Difference in tax of over and under 65 after proposal (9)-(11)	Tax change due to proposal (11)-(8)
$ 3,000	$ 209	$ 329	$120	$ 0	$329	$ -209	$ 0	$ 200	$200	$ 0	$200	--
5,000	557	671	114	242	429	-315	290	501	211	0	501	$ -290
7,500	1,031	1,168	137	1,075	93	44	686	914	228	222	692	-464
10,000	1,580	1,742	162	1,742	0	162	1,114	1,342	228	586	756	-528
12,500	2,206	2,398	192	2,398	0	192	1,567	1,831	264	1,256	575	-311
15,000	2,938	3,154	216	3,154	0	216	2,062	2,335	273	2,285	50	223
20,000	4,666	4,918	252	4,918	0	252	3,160	3,484	324	3,484	0	324
50,000	18,874	19,230	356	19,230	0	356	13,388	13,964	576	13,964	0	576
100,000	47,774	48,182	408	48,182	0	408	37,748	38,460	712	38,460	0	712

Office of the Secretary of the Treasury
Office of Tax Analysis

March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include social security benefits in AGI, and grant a new age exemption of $2,300 for singles and $4,000 for married couples both over 65 to be reduced dollar-for-dollar for income in excess of $5,600 if single and $11,200 if married and both over 65 but not to go below one-third of social security benefits.

2/ Assumes standard or minimum standard deduction through $10,000 income and itemized deductions equal to 10 percent of income above $10,000.

Table A-2

Tax Changes Under Proposal For Taxpayers With Average Social Security Benefits and Retirement Income 1/

Single Individual, Age 65

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
						Tax change due to proposed tax law				Total effect of proposed tax law and OASI benefit increases	
Present income 2/	Present tax for elderly taxpayers 3/	Regular tax paid by taxpayers under 65 4/	Difference in tax of over 65 and under 65	Tax under elderly proposal prior to OASI increases	Difference in tax of over and under 65 after proposal	Dollars	Percent of present tax	Percent of present income	Tax increase due to OASI benefit increases under proposed tax law 5/	Net tax change	Net after-tax income change
			(3)-(2)		(3)-(5)	(5)-(2)				(7)+(10)	$151-(11)
$ 2,000	$ 0	$ 110	$ 110	$ 0	$ 110	$ 0	--	--	$ 0	$ 0	$ 151
3,000	0	270	270	0	270	0	--	--	0	0	151
5,000	307	607	300	242	365	-65	-21.2%	-1.3%	23	-42	193
6,000	479	792	313	481	311	2	0.4	0.0	55 6/	57	94
7,500	754	1,089	335	1,075	14	321	42.6 7/	4.3	33	354	-203
10,000	1,276	1,648	372	1,648	0	372	29.2	3.7	28	400	-249
12,500	1,845	2,290	445	2,290	0	445	24.1	3.6	33	478	-327
15,000	2,526	3,033	507	3,033	0	507	20.1	3.4	36	543	-392
20,000	4,172	4,777	605	4,777	0	605	14.5	3.0	42	647	-496
50,000	18,212	19,028	816	19,028	0	816	4.5	1.6	61	877	-726
100,000	47,012	47,954	942	47,954	0	942	2.0	0.9	68	1,010	-859

Office of the Secretary of the Treasury, Office of Tax Analysis

March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include in income social security benefits, and grant a new age exemption of $2,300 reduced dollar-for-dollar for income in excess of $5,600 but not to go below one-third of social security benefits.

2/ Present income is AGI plus social security benefits ($1,008 average).

3/ Tax computation assumes standard or minimum standard deduction through $10,000 incomes, itemized deductions of 10 percent of income for incomes higher than $10,000.

4/ This is the tax that would apply to a taxpayer under age 65 whose family situation is the same, married or single, and who received an amount of income equal to the total income of the aged reduced by one-third of social security, or railroad retirement as the case may be and has itemized deductions equal to 10 percent of present income of the aged (Col. 1).

5/ A 15 percent increase in social security income of $151 brings it to $1,159.

6/ The age exemption phase-out accounts for a $55 tax increase being associated with a $151 increase in social security benefits. The effect on higher incomes is not as great since the phase-out terminates at $7,514. At $7,514 and above taxpayers receive the $386 minimum age exemption equal to one-third social security income after benefit increases.

7/ The 43 percent tax increase is due to the age exemption phase-out. At $7,564 and above the age exemption is reduced to a constant $336 so tax changes due to the reduction are increasingly smaller fractions of present tax liabilities.

Table A-3

Tax Changes Under Proposal For Taxpayers With Average Social Security Benefits and Retirement Income 1/

Married Couple, Both Age 65

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
						Tax change due to proposed tax law				Total effect of proposed tax law and OASI benefit increases	
Present income 2/	Present tax for elderly tax-payers 3/	Regular tax paid by tax-payers under 65 4/	Difference in tax of over 65 and under 65	Tax under elderly proposal prior to OASI increases	Difference in tax of over and under 65 after proposal	Dollars	Percent of present tax	Percent of present income	Tax increase due to OASI benefit increases under proposed tax law 5/	Net tax change	Net after-tax income change
			(3)-(2)		(3)-(5)	(5)-(2)				(7)+(10)	$230-(11)
$ 2,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	-- %	-- %	$ 0	$ 0	$ 230
3,000	0	125	125	0	125	0	--	--	0	0	230
5,000	0	416	416	0	416	0	--	--	0	0	230
6,000	97	567	470	28	539	-69	-71.1	-1.2	29	-40	270
7,500	332	818	486	222	596	-110	-33.1	-1.5	32	-78	308
10,000	739	1,245	506	586	659	-153	-20.7	-1.5	40	-113	343
12,500	1,138	1,719	581	1,256	463	118	10.4	0.9	88 6/	206	24
15,000	1,612	2,214	602	2,214	0	602	37.3 7/	4.0	33	635	-405
20,000	2,664	3,341	677	3,341	0	677	25.4	3.4	43	720	-490
50,000	12,540	13,719	1,179	13,719	0	1,179	9.4	2.4	74	1,253	-1,023
100,000	36,747	38,154	1,407	38,154	0	1,407	3.8	1.4	92	1,499	-1,269

Office of the Secretary of the Treasury, Office of Tax Analysis

March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include in income social security benefits, and grant a new age exemption of $4,000 reduced dollar-for-dollar for income in excess of $11,200 but not to go below one-third of social security benefits.

2/ Present income is AGI plus social security benefits ($1,531 average).

3/ Tax computation assumes standard or minimum standard deduction through $10,000 incomes, itemized deductions of 10 percent of income for incomes higher than $10,000.

4/ This is the tax that would apply to a taxpayer under age 65 whose family situation is the same, married or single, and who receives an amount of income equal to the total income of the aged reduced by one-third of social security or railroad retirement as the case may be and has itemized deductions equal to 10 percent of present income of the aged (Col. 1).

5/ $230, a 15 percent increase in social security income to $1,761.

6/ The age exemption phase-out accounts for an $88 tax increase being associated with a $230 increase in social security benefits. The effect on higher incomes is not as great since the phase-out terminates at $14,613. At $14,613 and above taxpayers receive the $587 minimum age exemption equal to one-third social security income after benefit increases.

7/ The 37 percent tax increase is due to the age exemption phase-out. At $14,690 and above the age exemption is reduced to a constant $510 so tax changes due to the reduction are increasingly smaller fractions of present tax liabilities.

Table A-4

Tax Changes Under Proposal For Taxpayers With Maximum Social Security Benefits and Retirement Income 1/

Single Individual, Age 65

(1) Present income 2/	(2) Present tax for elderly tax-payers 3/	(3) Regular tax paid by tax-payers under 65 4/	(4) Difference in tax of over 65 and under 65 (3)-(2)	(5) Tax under elderly proposal prior to OASI increases	(6) Difference in tax of over and under 65 after proposal (3)-(5)	(7) Tax change due to proposed tax law: Dollars (5)-(2)	(8) Tax change due to proposed tax law: Percent of present tax	(9) Tax change due to proposed tax law: Percent of present income	(10) Tax increase due to OASI benefit increases under proposed tax law 5/	(11) Total effect of proposed tax law and OASI benefit increases: Net tax change (7)+(10)	(12) Total effect of proposed tax law and OASI benefit increases: Net after-tax income change $244-(11)
$ 2,000	$ 0	$ 79	$ 79	$ 0	$ 79	0	--	--	0	0	$244
3,000	0	235	235	0	235	0	--	--	$ 3	$ 3	241
5,000	271	568	297	242	326	$-29	-10.7%	-0.6%	37	8	236
6,000	449	747	298	481	266	32	7.1	0.5	88 6/	120	124
7,500	708	1,044	336	1,044	0	336	47.5 7/	4.5	30	366	-122
10,000	1,213	1,594	381	1,594	0	381	31.4	3.8	41	422	-178
12,500	1,748	2,224	476	2,224	0	476	27.2	3.8	52	528	-284
15,000	2,404	2,959	555	2,959	0	555	23.1	3.7	58	613	-369
20,000	4,006	4,690	684	4,690	0	684	17.1	3.4	68	752	-508
50,000	17,929	18,907	978	18,907	0	978	5.5	2.0	94	1,072	-828
100,000	46,666	47,813	1,147	47,813	0	1,147	2.5	1.1	110	1,257	-1,013

Office of the Secretary of the Treasury, Office of Tax Analysis — March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include in income social security benefits and grant a new age exemption of $2,300 reduced dollar-for-dollar for income in excess of $5,600 but not to go below one-third of social security benefits.

2/ Present income is AGI plus social security benefits ($1,630 maximum).

3/ Tax computation assumes standard or minimum standard deduction through $10,000 incomes, itemized deductions of 10 percent of income for incomes higher than $10,000.

4/ This is the tax that would apply to a taxpayer under age 65 whose family situation is the same, married or single, and who receives an amount of income equal to the total income of the aged reduced by one-third of social security, or railroad retirement as the case may be and has itemized deductions equal to 10 percent of present income of the aged (Col. 1).

5/ A 15 percent increase in the maximum primary social security benefit equals $244.

6/ The age exemption phase-out accounts for an $88 tax increase being associated with a $244 increase in social security benefits. The effect on higher incomes is not as great since the phase-out terminates at $7,275. At $7,275 and above taxpayers receive the $625 minimum age exemption equal to one-third social security income after benefit increases.

7/ The 48 percent increase is due to the fact that the increase in taxable income resulting from the inclusion of maximum social security benefits and the phase-out is a large fraction of present tax. At higher incomes the social security inclusion is a constant and hence an increasingly smaller fraction of present tax.

Table A-5

Tax Changes Under Proposal For Taxpayers With Maximum Social Security Benefits and Retirement Income 1/

Married Couple, Both Age 65

(1) Present income 2/	(2) Present tax for elderly tax-payers 3/	(3) Regular tax paid by tax-payers under 65 4/	(4) Difference in tax of over 65 and under 65 (3)-(2)	(5) Tax under elderly proposal prior to OASI increases	(6) Difference in tax of over and under 65 after proposal (3)-(5)	(7) Tax change due to proposed tax law: Dollars (5)-(2)	(8) Tax change due to proposed tax law: Percent of present tax	(9) Tax change due to proposed tax law: Percent of present income	(10) Tax increase due to OASI benefit increases under proposed tax law 5/	(11) Total effect of proposed tax law and OASI benefit increases: Net tax change (7)+(10)	(12) Total effect of proposed tax law and OASI benefit increases: Net after-tax income change $367-(11)
$ 3,000	0	$ 82	$ 82	0	$ 82	0	--	--	0	0	$ 367
5,000	0	368	368	0	368	0	--	--	0	0	367
6,000	$ 78	515	437	$ 28	487	$- 50	-64.1%	-0.8%	$ 46	$- 4	371
7,500	299	760	461	222	538	- 77	-25.8	-1.0	50	- 27	394
10,000	696	1,187	491	586	601	-110	-15.8	-1.1	66	- 44	411
12,500	1,124	1,652	528	1,256	396	132	11.7	1.1	142 6/	274	93
15,000	1,524	2,147	623	2,147	0	623	40.9 7/	4.2	54	677	-310
20,000	2,549	3,256	707	3,256	0	707	27.7	3.5	63	775	-408
50,000	12,214	13,573	1,359	13,573	0	1,359	11.1	2.7	117	1,476	-1,109
100,000	36,330	37,971	1,641	37,971	0	1,641	4.5	1.6	147	1,788	-1,421

Office of the Secretary of the Treasury, Office of Tax Analysis — March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include in income social security benefits and grant a new age exemption of $4,000 reduced dollar-for-dollar for income in excess of $11,200 but not to go below one-third of social security benefits.

2/ Present income is AGI plus social security benefits ($2,445 maximum).

3/ Tax computation assumes standard or minimum standard deduction through $10,000 incomes, itemized deductions of 10 percent of income for incomes higher than $10,000.

4/ This is the tax that would apply to a taxpayer under age 65 whose family situation is the same, married or single, and who receives an amount of income equal to the total income of the aged reduced by one-third of social security, or railroad retirement as the case may be, and has itemized deductions equal to 10 percent of present income of the aged (Col. 1).

5/ A 15 percent increase in the maximum primary and supplemental social security benefit equals $367.

6/ The age exemption phase-out accounts for a $142 tax increase being associated with a $367 increase in social security benefits. The effect on higher incomes is not as great since the phase-out terminates at $14,263. At $14,263 and above taxpayers receive the $937 minimum age exemption equal to one-third social security income after benefit increases.

7/ The 41 percent tax increase is due to the age exemption phase-out. At $14,385 and above the age exemption is reduced to a constant $815 so tax changes due to the reduction are increasingly smaller fractions of present tax liabilities.

Table A-6

Tax Changes Under Proposal For Taxpayers With Maximum Social Security Benefits and Retirement Income 1/

Married Couple, Husband Age 65, Wife Under 65

(1) Present income 2/	(2) Present tax for elderly tax-payers 3/	(3) Regular tax paid by tax-payers under 65 4/	(4) Difference in tax of over 65 and under 65 (3)-(2)	(5) Tax under elderly proposal prior to OASI increases	(6) Difference in tax of over and under 65 after proposal (3)-(5)	(7) Tax change due to proposed tax law: Dollars (5)-(2)	(8) Tax change due to proposed tax law: Percent of present tax	(9) Tax change due to proposed tax law: Percent of present income	(10) Tax increase due to OASI benefit increases under proposed tax law 5/	(11) Total effect of proposed tax law and OASI benefit increases: Net tax change (7)+(10)	(12) Total effect of proposed tax law and OASI benefit increases: Net after-tax income change $244-(11)
$ 2,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	--	--	$ 0	$ 0	$ 244
3,000	0	120	120	0	120	0	--	--	0	0	244
5,000	150	411	261	140	271	- 10	-6.7%	-0.2%	33	23	221
6,000	301	562	261	275	287	- 26	-8.6	-0.4	34	8	236
7,500	532	811	279	492	319	- 40	-7.5	-0.5	38	-2	246
10,000	949	1,239	290	905	334	- 44	-4.6	-0.4	46	2	242
12,500	1,346	1,712	366	1,468	244	122	9.1	1.0	81 6/	203	41
15,000	1,835	2,207	372	2,207	0	372	20.2	2.5	35	407	-163
20,000	2,902	3,332	430	3,332	0	430	11.4	2.2	45	475	-231
50,000	12,894	13,703	809	13,703	0	809	6.3	1.6	78	887	-643
100,000	37,151	38,134	983	38,134	0	983	2.6	1.0	97	1,080	-836

Office of the Secretary of the Treasury, Office of Tax Analysis

March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include in income social security benefits and grant a new age exemption of $2,300 reduced dollar-for-dollar by the amount which one-half of income exceeds $5,600 but not to go below one-third of social security benefits.

2/ Present income is AGI plus social security benefits ($1,630 maximum).

3/ Tax computation assumes standard or minimum standard deduction through $10,000 incomes, itemized deductions of 10 percent of income for incomes higher than $10,000.

4/ This is the tax that would apply to a taxpayer under age 65 whose family situation is the same, married or single, and who receives an amount of income equal to the total income of the aged reduced by one-third of social security, or railroad retirement as the case may be, and has itemized deductions equal to 10 percent of present income of the aged (Col. 1).

5/ A 15 percent increase in the maximum primary social security benefits equal $244. The wife does not qualify for any social security benefits and has no retirement income.

6/ The age exemption phase-out accounts for an $81 tax increase being associated with a $244 increase in social security benefits. The effect on higher incomes is not as great since the phase-out terminates at $14,550. At $14,550 and above taxpayers receive the $625 minimum age exemption equal to one-third social security income after benefit increases.

Table A-7

Tax Changes Under Proposal For Taxpayers With Average Social Security Benefits and Retirement Income 1/

Married Couple, Husband Age 65, Wife Under 65

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
						Tax change due to proposed tax law				Total effect of proposed tax law and OASI benefit increases	
Present income 2/	Present tax for elderly taxpayers 3/	Regular tax paid by taxpayers under 65 4/	Difference in tax of over 65 and under 65 (3)-(2)	Tax under elderly proposal prior to OASI increases	Difference in tax of over and under 65 after proposal (3)-(5)	Dollars (5)-(2)	Percent of present tax	Percent of present income	Tax increase due to OASI benefit increases under proposed tax law 5/	Net tax change (7)+(10)	Net after-tax income change $151-(11)
$ 2,000	0	$ 9	$ 9	0	$ 9	0	--	--	0	0	$ 151
3,000	0	150	150	0	150	0	--	--	0	0	151
5,000	$ 167	444	277	$ 140	304	$ - 27	-16.2%	-0.5%	$20	$- 7	158
6,000	324	597	273	275	322	- 49	-15.1	-0.8	21	- 28	179
7,500	551	851	300	492	359	- 59	-10.7	-0.8	24	- 35	186
10,000	979	1,278	299	905	373	- 74	- 7.6	-0.7	29	- 45	196
12,500	1,400	1,757	357	1,468	289	68	4.9	0.5	50 6/	118	33
15,000	1,895	2,252	357	2,238	14	343	18.1	2.3	38	381	-230
20,000	2,981	3,390	409	3,390	0	409	13.7	2.0	28	437	-286
50,000	13,115	13,803	688	13,803	0	688	5.2	1.4	48	736	-585
100,000	37,434	38,258	824	38,258	0	824	2.2	0.8	61	885	-734

Office of the Secretary of the Treasury, Office of Tax Analysis — March 1, 1967

1/ Proposal to eliminate the retirement income credit and present age exemption, include in income social security benefits and grant a new age exemption of $2,300 reduced dollar-for-dollar by the amount which one-half of income exceeds $5,600 but not to go below one-third of social security benefits.

2/ Present income is AGI plus social security benefits ($1,008 average). Wife does not qualify for any social security benefits and has no retirement income

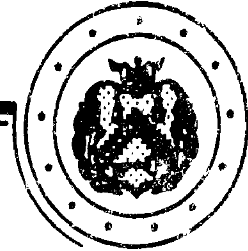
3/ Tax computation assumes standard or minimum standard deduction through $10,000 incomes, itemized deductions of 10 percent of income for incomes higher than $10,000.

4/ This is the tax that would apply to a taxpayer under age 65 whose family situation is the same, married or single, and who receives an amount of income equal to the total income of the aged reduced by one-third of social security, or railroad retirement as the case may be and has itemized deductions equal to 10 percent of present income of the aged (Col. 1).

5/ A 15 percent increase in social security income of $151 brings it to $1,159.

6/ The age exemption phase-out accounts for a $50 tax increase being associated with a $151 increase in social security benefits. The effect on higher incomes is not as great since the phase-out terminates at $15,028. At $15,028 and above, taxpayers receive the $386 minimum age exemption equal to one-third social security income after benefit increases.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 1, 1967

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 9, 1967, in the amount of $2,305,029,000, as follows:

91-day bills (to maturity date) to be issued March 9, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated December 8, 1966, and to mature June 8, 1967, originally issued in the amount of $1,000,599,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 9, 1967, and to mature September 7, 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, March 6, 1967. 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 March 9, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 9, 1967. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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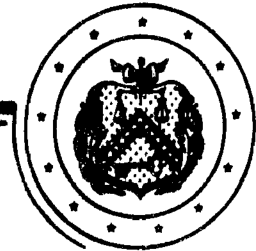
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 1, 1967

FOR IMMEDIATE RELEASE

RHODESIAN TRANSACTION REGULATIONS

The Treasury Department announced today it has issued regulations governing trade with Southern Rhodesia, under an Executive Order of January 5, 1967, by President Johnson.

The Rhodesian Transaction Regulations prohibit, unless licensed by Treasury:

-- Imports into this country of Rhodesian products named in a U.N. sanctions resolution of December 16, 1966. These Rhodesian products include asbestos, hides, skins and leather, meat and meat products, chromium, copper, iron ore, pig iron, sugar, tobacco and certain by-products items, wherever made.

-- Dealings abroad in these products by Americans and by Rhodesian subsidiaries of U.S. firms.

-- Exports from abroad to Rhodesia, by Americans, of arms, aircraft, oil, motor vehicles, and some other products not of U.S. origin, directly or through a third country for transhipment to Southern Rhodesia.

(Control of exports of arms and other goods of U.S. origin to Southern Rhodesia falls under export controls exercised by the State and Commerce Departments).

Penalties for violation of the regulations call for imprisonment for not more than 10 years, a fine of not more than $10,000, or both.

The Treasury said that in line with the President's Executive Order of January 5, it would license imports or other dealings in the products involved which had been exported from Southern Rhodesia prior to December 16, 1966. In addition, it said it would in general license in those cases where payment had been made by Americans prior to January 5, 1967. This provision was made to avoid cases of undue hardship arising from transactions

made before the date of the Executive Order. Applications for such licenses must be filed with the Federal Reserve Bank of New York.

The Rhodesian Transaction Regulations apply only to the products mentioned and related financial and commercial transactions.

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TREASURY DEPARTMENT

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WASHINGTON, D.C.

March 1, 1967

₹ IMMEDIATE RELEASE

TREASURY OFFERS ADDITIONAL $2.7 BILLION IN JUNE TAX BILLS

The Treasury Department, by this public notice, invites tenders for ,700,000,000, or thereabouts, of 101-day Treasury bills (to maturity :e), to be issued March 13, 1967, on a discount basis under competitive ı noncompetitive bidding as hereinafter provided. The bills of this :ies will be designated Tax Anticipation Series and represent an ıitional amount of bills dated October 18, 1966, to mature June 22, 1967, ıginally issued in the amount of $2,006,632,000 (an additional)0,885,000 was issued December 12, 1966). The additional and original ıls will be freely interchangeable. They will be accepted at face ıue in payment of income taxes due on June 15, 1967, and to the extent ?y are not presented for this purpose the face amount of these bills ıl be payable without interest at maturity. Taxpayers desiring to)ly these bills in payment of June 15, 1967, income taxes have the ivilege of surrendering them to any Federal Reserve Bank or Branch or to ? Office of the Treasurer of the United States, Washington, not more ın fifteen days before June 15, 1967, and receiving receipts therefor)wing the face amount of the bills so surrendered. These receipts may submitted in lieu of the bills on or before June 15, 1967, to the ;trict Director of Internal Revenue for the District in which such taxes ? payable. The bills will be issued in bearer form only, and in ıominations of $1,000, $5,000, $10,000, $50,000, $100,000, $500,000, ı $1,000,000 (maturity value).

Tenders will be received at Federal Reserve Banks and Branches up to ? closing hour, one-thirty p.m., Eastern Standard time, Tuesday, :ch 7, 1967. Tenders will not be received at the Treasury Department, ;hington. Each tender must be for an even multiple of $1,000, and in ? case of competitive tenders the price offered must be expressed on ? basis of 100, with not more than three decimals, e.g., 99.925. ıctions may not be used. It is urged that tenders be made on the printed :ms and forwarded in the special envelopes which will be supplied by ıeral Reserve Banks or Branches on application therefor.

Banking institutions generally may submit tenders for account of ;tomers provided the names of the customers are set forth in such ıders. Others than banking institutions will not be permitted to ›mit tenders except for their own account. Tenders will be received :hout deposit from incorporated banks and trust companies and from ›ponsible and recognized dealers in investment securities. Tenders

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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 issue at a specific rate or price, until after one-thirty p.m., Eastern Standard time, Tuesday, March 7, 1967.

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 March 13, 1967, provided, however, any qualified depositary will be permitted to make payment by credit in its Treasury tax and loan account for not more than 50 percent of the amount of 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.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
March 1, 1967

FOR IMMEDIATE RELEASE

COSTS OF PRINTING CURRENCY REDUCED

The Treasury said today that its Bureau of Engraving and Printing has got the cost of printing United States currency down to less than nine tenths of a cent per note. And -- thanks to technological improvements in printing processes -- the cost should go even lower during the next two years.

During Fiscal Year 1966 the Bureau delivered 2,281,648,000 currency notes at a cost of $19,208,344. This price included material, labor and overhead. The resultant unit cost, $8.42 per 1,000 notes, compares with $9.92 per unit cost in Fiscal Year 1951.

The Bureau, on the basis of current cost information, believes it can reduce this unit cost to $8.30 during the current 1967 fiscal year which ends June 30. It should drop even lower -- to $8.11 -- in Fiscal Year 1968.

The Bureau has converted from flat bed printing presses to modern high-speed rotary presses, contributing to cost reduction in printing currency.

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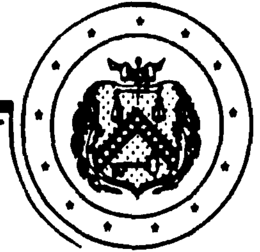
F-834

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 1, 1967

FOR IMMEDIATE RELEASE

SALE OF TAX ANTICIPATION BILLS

The Treasury Department announced today the sale of $2.7 billion of tax anticipation bills maturing in June 1967. The bills are in addition to the $2.8 billion of June tax bills already outstanding.

The bills will be auctioned on Tuesday, March 7, for payment on Monday, March 13. Commercial banks may make payment of up to 50 percent of the amount of their own and their customers' accepted tenders by credit to Treasury tax and loan accounts.

The bills mature on June 22, 1967, but may be used at face value in payment of Federal taxes due on June 15, 1967.

The Treasury indicated that after this sale of tax bills it contemplates no further open market borrowing to raise new cash during the balance of this fiscal year.

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F-835

TREASURY DEPARTMENT

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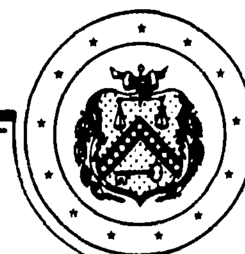

WASHINGTON, D.C.

March 3, 1967

FOR IMMEDIATE RELEASE

UNITED STATES FOREIGN GOLD TRANSACTIONS IN 1966

Monetary gold transactions between the United States and foreigners in 1966 resulted in net sales amounting to approximately $431 million.

As shown in Table I attached, aggregate purchases by France totaled about $601 million, all of which took place in the first nine months of the year. In the absence of these sales to France and of $141 million in sales for domestic uses, the United States gold stocks would have shown a net increase from all other monetary gold transactions of $170 million for the year.

During the fourth quarter U. S. net gold sales to foreign countries amounted to $86 million, and sales to domestic users to $35 million. Fourth quarter transactions included the sale of $60 million of gold to Italy, which restored Italian gold reserve holdings to their approximate level at the beginning of 1966.

Data in Table II attached, show transactions with member countries of the International Monetary Fund associated with payments of the gold portion of their quota increases. Sales of gold for this purpose are deposited by the International Monetary Fund with the United States and the effects upon the U. S. gold stock of the quota increases are mitigated. No further transactions took place in the fourth quarter.

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F-836

UNITED STATES NET MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES AND INTERNATIONAL INSTITUTIONS

January 1, 1966 - December 31, 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	Third Quarter 1966	Fourth Quarter 1966	Calendar Year 1966
Afghanistan	-1.2	-1.9	-0.5	-0.1	-3.7
Argentina	--	--	-10.9	-10.6	-21.5
Brazil	-0.9	-0.8	-0.6	-0.5	-2.8
Canada	+100.0	+50.0	+50.0	--	+200.0
Ceylon	-0.1	--	--	--	-0.1
Chile	--	-1.5	-3.0	-1.5	-6.0
Colombia	+7.0	--	--	-0.4	+6.6
Costa Rica	-0.1	-0.1	-0.1	-0.1	-0.4
Denmark	-5.0	--	--	--	-5.0
Dominican Republic	-0.1	*	-0.1	-0.1	-0.3
Egypt	-1.1	*	--	--	-1.1
France	-102.9	-220.7	-277.3	--	-600.9
Greece	--	+9.6	--	-0.6	+9.0
Haiti	*	*	*	*	-0.1
Honduras	*	*	*	*	-0.1
Ireland	-0.4	-0.9	-0.4	--	-1.7
Italy	--	--	--	-60.0	-60.0
Jamaica	-1.0	--	--	--	-1.0
Lebanon	-10.8	--	--	--	-10.8
Liberia	-1.2	-0.1	-0.1	-0.1	-1.5
Mexico	--	--	--	+10.0	+10.0
Nicaragua	-1.0	*	-0.1	-0.1	-1.2
Pakistan	-0.2	-0.2	-0.2	-0.2	-0.8
Philippines	--	--	-2.5	+10.0	+7.5
Sudan	--	-0.1	-0.1	0.1	-0.3
Surinam	--	--	-2.5	--	-2.5
Switzerland	+7.0	+11.0	-20.0	--	-2.0
Syria	-1.4	-0.2	-0.2	-0.2	-2.0
Tunisia	-0.1	-1.5	-0.1	-0.1	-1.8
Turkey	-0.5	-1.8	--	-10.2	-12.5
United Kingdom	-18.9	-7.2	+126.0	-20.1	+79.8
Uruguay	-0.1	-0.1	-0.1	-0.1	-0.4
Yugoslavia	-0.9	-0.6	-0.6	-0.7	-2.8
All Other	-0.1	-0.1	-0.1	-0.1	-0.4
Total	-34.0	-167.2	-143.5	-85.9	-430.6
Total U. S. Gold Outflow:	-68.3	-208.6	-173.2	-121.0	-571.2
(Including domestic transactions of:)	(-34.3)	(-41.4)	(-29.7)	(-35.1)	(-140.6)

Figures may not add to totals due to rounding.
*Less than $50,000.00.

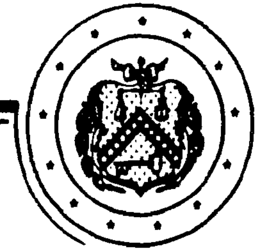
TABLE 2

UNITED STATES MONETARY GOLD TRANSACTIONS WITH FOREIGN COUNTRIES
MITIGATED THROUGH SPECIAL DEPOSITS BY THE IMF
(Millions of U.S.$)

Country	1966 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Algeria		-0.8		
Argentina			-17.5	N
Austria	-25.0			
Cameroon		-0.2		
Central African Republic		-0.1		
Ceylon	-4.0			
Chad		-0.1		
Congo (Kinshasa)	-0.6			
Costa Rica			-1.3	O
Dahomey		-0.1		
Denmark	-8.3			
Dominican Republic	-0.4			
Ecuador		-1.3		
Ethiopia	-1.0			
Gabon		-0.1		
Greece		-10.0		
Guinea			-1.0	N
Haiti	-0.2			
Honduras	-1.0			
Iraq	-4.0			
Ivory Coast	-0.2			
Jamaica	-1.5			
Japan	-56.3			E
Korea	-1.3			
Liberia	-1.0			
Malagasy		-1.0		
Mali		-1.0		
Mauritania		-0.1		
Morocco		-0.9		
Nicaragua	-1.0			
Niger			-0.1	
Philippines			-8.8	
Republic of Congo (Brazzaville)		-0.1		
Rwanda		-0.2		
Somalia	-0.9			
Sudan	-3.0			
Sweden	-18.7			
Syria	-2.0			
Tunisia		-1.8		
Upper Volta		-0.1		
Vietnam	-0.3			
TOTAL	-130.7	-17.9	-28.6	
IMF DEPOSIT	+130.7	+17.9	+28.6	

TOTAL 1966 +177.2
1965 +34.3
GRAND TOTAL 211.5

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
day, March 6, 1967.

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 December 8, 1966, and the er series to be dated March 9, 1967, which were offered on March 1, 1967, were ned 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 ls. The details of the two series are as follows:

GE OF ACCEPTED PETITIVE BIDS:	91-day Treasury bills maturing June 8, 1967		:	182-day Treasury bills maturing September 7, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.915	4.292%	:	97.830	4.292%
Low	98.892	4.383%	:	97.792	4.367%
Average	98.902	4.344% 1/	:	97.806	4.340% 1/

44% of the amount of 91-day bills bid for at the low price was accepted
74% of the amount of 182-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 24,664,000	$ 14,664,000	:	$ 7,809,000	$ 7,809,000
New York	1,356,706,000	779,986,000	:	1,221,618,000	633,218,000
Philadelphia	25,209,000	12,759,000	:	12,329,000	4,329,000
Cleveland	47,551,000	44,551,000	:	22,978,000	22,978,000
Richmond	17,115,000	17,115,000	:	8,646,000	8,646,000
Atlanta	55,166,000	50,166,000	:	36,708,000	31,708,000
Chicago	312,256,000	137,200,000	:	276,782,000	81,782,000
St. Louis	60,990,000	57,990,000	:	39,992,000	39,492,000
Minneapolis	19,099,000	19,099,000	:	12,204,000	12,204,000
Kansas City	26,520,000	26,070,000	:	9,502,000	9,502,000
Dallas	23,953,000	21,953,000	:	16,977,000	12,977,000
San Francisco	118,483,000	118,483,000	:	135,636,000	135,636,000
TOTALS	$2,087,712,000	$1,300,036,000 a/		$1,801,181,000	$1,000,281,000 b/

Includes $260,423,000 noncompetitive tenders accepted at the average price of 98.902
Includes $108,423,000 noncompetitive tenders accepted at the average price of 97.806
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.47% for the 91-day bills, and 4.51% for the 182-day bills.

F-837

ADDRESS OF THE HONORABLE ROBERT A. WALLACE
ASSISTANT SECRETARY OF TREASURY
BEFORE THE U.S. SAVINGS BOND LUNCHEON
LELAND MOTOR HOTEL, SPRINGFIELD, ILLINOIS
MARCH 7, 1967

CURRENT STATE OF THE ECONOMY

THE OVERALL PERFORMANCE OF THE NATIONAL ECONOMY IS IN GENERAL CONFORMANCE TO OUR EARLY JANUARY EXPECTATIONS. CONSUMER SALES ARE RUNNING LOWER, BUT HOME CONSTRUCTION AND INVENTORY PURCHASES ARE HIGHER THAN WE HAD PROJECTED. RECENT PRIVATE SURVEYS AND THE HEAVY DEMAND FOR CORPORATE BORROWING LEAD US TO EXPECT NO MAJOR SURPRISE IN BUSINESS INVESTMENT INTENTIONS.

THE CONTINUED HIGH RATE OF INVENTORY ACCUMULATION HAS BEEN VIEWED BY SOME AS A DISAPPOINTMENT. WHILE THIS PROBABLY MEANS LESS DEMAND FOR PRODUCTION IN THE FUTURE THERE ARE, NEVERTHELESS, TWO HEALTHY FACTORS: (1) THE DEPRESSING EFFECT OF LOWER CURRENT CONSUMER SALES IS OFFSET, AND (2) THE PRICE PRESSURES EXPECTED LATER THIS YEAR WILL BE MODERATED BY LESS NEED TO INCREASE INVENTORIES.

OF COURSE, THOSE OF US WHO STUDY ECONOMIC TRENDS POSSESS NO POWERS TO FORESEE ALL EVENTUALITIES. IN THE ABSENCE OF SUCH POWERS, WE MUST DEPEND ON THE SIMPLE TOOLS OF LOGIC AND THE BEST STATISTICS WE CAN MUSTER. THUS, WHILE CONSUMERS ARE NOT CURRENTLY BUYING AS MUCH AS WE THOUGHT THEY WOULD, THE FACT REMAINS THAT PERSONAL INCOME IS HIGH AND GROWING WELL. SINCE THE PUBLIC IS ACQUIRING FEWER AUTOMOBILES AND HOUSES, PEOPLE OBVIOUSLY ARE SAVING MORE, AS EVIDENCED BY THE RISE OF ACCOUNTS IN THE NATION'S THRIFT INSTITUTIONS. SO THE BUYING POWER IS THERE AND WE MUST STILL EXPECT A RESUMPTION OF A HIGHER RATE OF HIGH ACTIVITY IN THE SECOND HALF OF 1967.

THIS LEAVES UNCHANGED THE CALCULUS UPON WHICH WE BASED OUR PROPOSAL OF A 6 PER CENT TAX SURCHARGE, EFFECTIVE AT MID-YEAR. WE DO NOT THINK MINDS SHOULD BE MADE UP, NOW, AGAINST THIS PROPOSAL UPON THE BASIS OF DEVELOPMENTS THAT ARE STILL VERY REASONABLY CLOSE TO THOSE UPON WHICH THE NEED FOR A MID-YEAR TAX INCREASE WAS PROJECTED: A SLUGGISH FIRST HALF DURING WHICH STEAM GATHERS FOR A PICK-UP IN THE SECOND HALF.

EXTRA DEFENSE COSTS MUST BE FINANCED

PERHAPS WE COULD HAVE BEEN ABLE TO GET THROUGH A COMPARATIVELY BRIEF PERIOD OF HEAVY DEFENSE EXPENDITURES WITHOUT TAX INCREASES. BY THE TIME THE NEW TAX INCREASE IS RECOMMENDED TO TAKE EFFECT, HOWEVER, WE WILL HAVE HAD TWO YEARS OF THESE EXPENDITURES AND THEY WILL CONTINUE TO RISE AS THE FISCAL 1968 BUDGET SHOWS. NEXT SUMMER, THEREFORE, THE TIME WILL COME TO PICK UP THE TAB FOR THE FISCAL 1968 INCREASES. IF WE FAIL TO DO SO, BUDGET DEFICITS WILL GROW BEYOND THE BOUNDS OF PRUDENCE AND NEW INFLATIONARY FORCES WILL BE UNLEASHED.

WE ARE HOPEFUL THAT IT WILL NOT BE NECESSARY TO EXPERIENCE NEW INFLATIONARY PRESSURES BEFORE ACTION ON THE TAX PROPOSAL CAN BE TAKEN.

THERE HAS BEEN SOME TALK THAT PERHAPS CIVILIAN EXPENDITURES CAN BE CUT BY $5-1/2 BILLION, THE AMOUNT OF THE TAX INCREASE. WERE THIS POSSIBLE, WE WOULD ALL BE HAPPY. HOWEVER, THE PRESIDENT HAS ALREADY PARED CIVILIAN EXPENDITURES TO A POINT WHERE FURTHER REDUCTIONS OF $5-1/2 BILLION WOULD CAUSE REAL DAMAGE TO VITAL PROGRAMS. THE PRESIDENT HAD CUT THE BUDGET LAST YEAR TO A POINT WHERE CONGRESS, RATHER THAN SLICING THE REQUESTS, ACTUALLY ADDED TO THEM. THAT WILL BE A PROBLEM THIS YEAR, TOO. EXPENDITURES MUST BE HELD DOWN TO BUDGET LEVELS DURING THE COMING FISCAL YEAR, OR THE ANTI-INFLATIONARY TAX MEASURES WILL BE AT LEAST PARTIALLY NULLIFIED.

DURING THE PAST 20 YEARS OUR COUNTRY HAS MADE GREAT STRIDES IN REDUCING THE BURDEN OF THE NATIONAL DEBT WHICH HAD GROWN TREMENDOUSLY DURING WORLD WAR II. IN 1946, THE DEBT REPRESENTED 134% OF TOTAL NATIONAL PRODUCTION. THIS RATIO HAS BEEN WHITTLED DOWN TO AN ESTIMATED 41% IN FISCAL 1968. IN SIZE, IT HAS GROWN ABOUT 19% SINCE 1946, WHILE CORPORATE DEBT HAS RISEN BY 440%; STATE AND LOCAL DEBT BY 560% AND THE DEBT OF INDIVIDUALS BY 710%.

THIS RECORD OF HOLDING DOWN THE DEBT MUST BE CONTINUED.

IS A 6% SURCHARGE TO FINANCE ADDED DEFENSE SPENDING ASKING TOO MUCH OF AMERICANS? HERE WE SHOULD BEAR IN MIND TWO POINTS:

1. PRESIDENT JOHNSON'S TAX REDUCTION PROGRAMS OF 1964 AND 1965 REDUCED OUR TAX PAYMENTS BY $20 BILLION AT CURRENT INCOME LEVELS.

A 6% SURCHARGE WOULD REDUCE THIS TAX SAVING TO $15 BILLION. THREE-FOURTHS OF THE TAX CUT WOULD REMAIN IN FORCE.

2. AMERICANS ENJOY THE LOWEST TAX BURDEN OF ANY MAJOR INDUSTRIAL COUNTRY IN THE WORLD -- AND THIS INCLUDES TAXES LEVIED AT ALL LEVELS OF GOVERNMENT. THE ESTIMATES OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT SHOW THAT AS A PROPORTION OF TOTAL NATIONAL PRODUCTION, FRENCH CITIZENS PAID 38.5% IN TAXES; GERMANY, 34.4%; ITALY, 29.6%; GREAT BRITAIN, 28.6%; AND THE U.S., 27.3%.

THESE FIGURES ARE NOT CITED TO IMPLY THAT AMERICANS ARE HAVING IT EASY. THE MAIN PURPOSE OF THE 1964 AND 1965 TAX CUTS WAS TO PERMIT THE PRIVATE SECTOR OF OUR ECONOMY TO FLOURISH BY ALLEVIATING THE BURDEN OF HIGH TAXES. BUT THE FIGURES DO SHOW THAT WE CAN AFFORD TO PAY FOR OUR RISING DEFENSE COSTS AND KEEP OUR ECONOMY HEALTHY.

RECENT ECONOMIC PROGRESS

OUR NATION HAS TOO MUCH AT STAKE TO RISK INFLATIONARY EXCESSES. WHILE FAR FROM PERFECT, WE HAVE GREATLY INCREASED OUR KNOWLEDGE OF ECONOMIC PHENOMENA AND WE MUST HAVE THE COURAGE TO MAKE USE OF THIS KNOWLEDGE.

THE ENACTMENT OF THE EMPLOYMENT ACT IN 1946 WAS A MILESTONE IN OUR COUNTRY'S POLITICAL AND ECONOMIC DEVELOPMENT, AND WE HAVE LEARNED A GREAT DEAL MORE IN THE INTERVENING 21 YEARS. THE FACT THAT ECONOMIC STAGNATION MARKED THE 1950'S, AS INDICATED BY THE RECORD OF THREE RECESSIONS, SLUGGISH GROWTH AND, AT THE SAME TIME, THE WORST PEACETIME INFLATION YEARS IN RECENT HISTORY, HAS SOMETHING TO DO WITH THE FACT THAT MANY OF THE ECONOMIC TOOLS WE HAVE EMPLOYED IN THE SIXTIES WITH CONSIDERABLE SUCCESS WERE THEN ONLY THEORIES. EVEN TODAY THESE ARE STILL BEING IMPROVED UPON. WE HAVE LEARNED THAT DEALING WITH THE BUSINESS CYCLE INVOLVES MUCH MORE THAN SIMPLY FOLLOWING THE CONVENTIONAL APPROACH TO COMPENSATORY MONETARY AND FISCAL POLICIES WHICH IN PRACTICE HAS MEANT MAINLY RELIANCE ON THE SO-CALLED AUTOMATIC STABILIZERS.

THE KEY POLICY DEVELOPMENTS IN THE SIXTIES WERE THE EXPANSIONARY TAX REDUCTIONS OF 1962, 1964 AND 1965. EVEN BEFORE THE VIET NAM ESCALATION, THESE POLICIES MADE POSSIBLE AN ENVIRONMENT 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.

LAST YEAR, WITH THE HEAVY BURDEN OF VIET NAM, DEFINITE ANTI-INFLATIONARY POLICIES BECAME NECESSARY. THESE WERE CARRIED OUT WITH MODERATE RESTRAINT IN NON-DEFENSE EXPENDITURES AND MEASURES WHICH RAISED REVENUES BY SPEEDING

UP TAX COLLECTIONS AND RESTORING CERTAIN EXCISE TAX REDUCTIONS. ADDITIONAL ACTION BECAME NECESSARY LAST SUMMER AND IN SEPTEMBER, THE PRESIDENT PROPOSED A $3 BILLION CUTBACK IN NEW CIVILIAN SPENDING PROGRAMS AND A TEMPORARY SUSPENSION OF THE INVESTMENT TAX CREDIT.

THESE MEASURES WERE EFFECTIVE. THE AVERAGE LEVEL OF CONSUMER PRICES ROSE 2.9 PER CENT BETWEEN 1965 AND 1966 -- LESS THAN BETWEEN THE PEACETIME YEARS 1956 AND 1957. THIS PRICE INCREASE COMPARES VERY FAVORABLY WITH THOSE WHICH OCCURRED IN OTHER MAJOR COUNTRIES WHICH WERE NOT SUBJECT TO THE PRESSURES OF INTENSIFIED DEFENSE SPENDING. CONSIDERING THE BURDEN OF VIET NAM ON TOP OF A FULL EMPLOYMENT ECONOMY, A PRICE INCREASE OF LESS THAN 3 PER CENT CAN ONLY BE CHARACTERIZED AS A REMARKABLE PERFORMANCE.

GROSS NATIONAL PRODUCT JUMPED $58 BILLION OVER 1965 -- AN INCREASE OF 8-1/2%. EVEN AFTER ADJUSTING FOR THE UNWANTED PRICE INCREASES THE REAL GAIN WAS 5-1/2% -- BETTER THAN OCCURRED IN THE MAJOR COUNTRIES OF EUROPE. UNEMPLOYMENT STAYED AT OR BELOW 4% ALL YEAR. TOTAL COMPENSATION OF EMPLOYEES AND NET INCOME PER FARM ROSE 10% WHILE CORPORATE PROFITS CLIMBED 8%.

NOR HAVE THE DISADVANTAGED BEEN LEFT BEHIND. UNEMPLOYMENT AMONG NEGRO MEN WHICH HAD REACHED 12% IN 1961 FELL TO LESS THAN 5%. DURING THE SAME 6-YEAR PERIOD, THE NUMBER OF AREAS OF SUBSTANTIAL UNEMPLOYMENT DECLINED FROM OVER A HUNDRED TO EIGHT AND THE NUMBER OF AMERICANS IN POVERTY FELL BY NEARLY 7 MILLION. MEANWHILE, PRODUCTIVITY, OR OUTPUT PER MAN HOUR LEAPED 19 PER CENT AND $220 BILLION WORTH OF BUILDINGS, EQUIPMENT, IMPROVEMENTS AND INVENTORY WERE ADDED TO OUR GROSS STOCK OF PRIVATE PRODUCTIVE CAPITAL.

OF COURSE, MUCH REMAINS TO BE DONE. EVEN A 2.9 PER CENT PRICE INCREASE IS TOO MUCH AND THIS RATE MUST BE BROUGHT DOWN. MOREOVER, WHILE MOST OF THE 3 MILLION JOBLESS PERSONS AT THE END OF THE YEAR COULD BE CALLED "FRICTIONALLY UNEMPLOYED," THERE ARE ABOUT ONE MILLION WORKERS WHO FIND IT EXTREMELY DIFFICULT TO FIND A STEADY JOB. THESE ARE THE "HARD CORE" UNEMPLOYED -- LACKING SKILLS; THE VICTIMS OF DISCRIMINATION; THOSE UNWILLING OR UNABLE TO MOVE TO NEW AREAS AND OCCUPATIONS; THE PHYSICALLY OR EMOTIONALLY HANDICAPPED. FURTHER, EVEN AMONG THOSE EMPLOYED SOME 2 MILLION BREADWINNERS DID NOT EARN ENOUGH TO SUPPORT A MINIMUM STANDARD OF DECENT SUBSISTENCE.

HOME CONSTRUCTION, THE SECTOR OF THE ECONOMY HARDEST HIT BY TIGHT MONEY LAST YEAR, IS STILL IN A DEPRESSED STATE, ALTHOUGH THERE ARE SIGNS THAT RECOVERY IS UNDERWAY AS MONEY CONDITIONS EASE.

MOVING INTO 1967, WE SEE EVIDENCES THAT THE ECONOMY IS NOT NEARLY SO BOOMING AS IT WAS A FEW MONTHS AGO. YET, UNEMPLOYMENT REMAINS LOW, STATE AND LOCAL EXPENDITURES CONTINUE A HEALTHY RISE AND DEFENSE SPENDING IS EXPECTED TO CONTINUE CLIMBING.

THE PRESIDENT'S NEW BUDGET

IN DETERMINING THE BEST FISCAL POLICY IN HIS BUDGET FOR FISCAL 1968, THE PRESIDENT CONFRONTED A DILEMMA. THE ECONOMY CLEARLY NEEDED MILD STIMULATION IN THE EARLY MONTHS OF THIS CALENDAR YEAR, IN ORDER TO PERMIT ECONOMIC ADJUSTMENTS SUCH AS ALLOWING TIME FOR EASIER CREDIT CONDITIONS TO RESTORE HOUSING. YET WITH DEFENSE SPENDING CONTINUING TO RISE, ALONG WITH STATE AND LOCAL ACTIVITY, AND HIGHER SOCIAL SECURITY BENEFITS BEGINNING AT MID-YEAR,

THE DEGREE OF STIMULATION WOULD CLEARLY NEED TO TAPER OFF. THE PROBLEM WAS SOLVED BY RECOMMENDING A NEWLY DEVELOPED TAX POLICY -- FLEXIBLE ENOUGH TO PERMIT ADJUSTMENTS BUT EFFECTIVE ENOUGH TO CONTAIN THE PRESSURES OF THE ADDED DEFENSE SPENDING DURING THE FISCAL YEAR BEGINNING NEXT JULY.

THUS, THE PRESIDENT'S RECOMMENDATIONS CALL FOR A MODEST NATIONAL INCOME BUDGET DEFICIT OF $3.8 BILLION FOR FISCAL 1967, DECLINING TO $2.1 BILLION FOR FISCAL 1968. QUARTER BY QUARTER, THE NATIONAL INCOME BUDGET SHOULD REACH A BALANCE, OR EVEN SURPLUS, BEFORE THE END OF FISCAL 1968.

WE BELIEVE THIS FISCAL PROGRAM WILL PROVIDE THE PROPER ENVIRONMENT FOR STABLE EXPANSION. WE EXPECT A 1967 GNP OF $787 BILLION, A RISE OF $47 BILLION. PRICE RISES CANNOT BE SHUT OFF COMPLETELY, BUT WE EXPECT TO BETTER THE 1966 RECORD BY A GOOD MARGIN. GNP IN REAL TERMS -- ADJUSTED FOR PRICE INCREASES -- SHOULD GROW AT A RATE CLOSE TO 4 PER CENT. THIS IS LESS THAN THE 5-1/2% GROWTH LAST YEAR, BUT WITH CURRENT HIGH LEVELS OF EMPLOYMENT AND PLANT UTILIZATION, IT IS ABOUT AS HIGH AS WE CAN PLAN ON IF WE ARE TO CONTAIN INFLATIONARY PRESSURES.

PROFITS AND INCOMES SHOULD CONTINUE TO RISE, BUT THE LACK OF SLACK WILL KEEP THE INCREASES BELOW THOSE ATTAINED LAST YEAR. UNEMPLOYMENT SHOULD STAY AT THE CURRENT, RELATIVELY FULL EMPLOYMENT LEVELS, AND THERE SHOULD BE SOME UPGRADING AS WORKERS FIND EMPLOYMENT IN MORE PRODUCTIVE JOBS. WE ALSO HOPE TO MAKE INROADS ON HARD CORE UNEMPLOYMENT THROUGH MANPOWER TRAINING PROGRAMS.

WE SHALL CONTINUE TO FACE BALANCE OF PAYMENTS PRESSURES BECAUSE OF OFF-SHORE VIET NAM EXPENDITURES AND OVERSEAS TROOP REQUIREMENTS, BUT NEW EFFORTS WILL BE MOUNTED IN THIS AREA.

MEANWHILE, THERE IS MUCH THE PRIVATE CITIZENS CAN DO. WHEN PRESIDENT JOHNSON ANNOUNCED THE TREASURY DEPARTMENT'S NEW "FREEDOM SHARES" ON FEBRUARY 21, HE TERMED THEM "A CHEERFUL COMPANION TO THE POPULAR SERIES E SAVINGS BOND".

AS YOU KNOW, "FREEDOM SHARES" WILL BE AVAILABLE ONLY TO THOSE WHO REGULARLY BUY SAVINGS BONDS THROUGH PAYROLL SAVINGS DEDUCTIONS WHERE THEY WORK OR BOND-A-MONTH PLANS WHERE THEY BANK.

THE NEW NOTE -- LIKE THE SERIES E SAVINGS BOND -- WILL BE SOLD AT A DISCOUNT AND WILL ACCUMULATE INTEREST OVER ITS LIFE. THE SMALLEST DENOMINATION WILL BE SOLD FOR $20.25 AND WILL PAY $25 AT THE END OF 4-1/2 YEARS. NOTES WITH MATURITY VALUES OF $50, $75 AND $100 WILL ALSO BE AVAILABLE.

THE EFFECTIVE RATE OF INTEREST FOR "FREEDOM SHARES" -- WHEN HELD TO MATURITY -- WILL BE 4.74 PER CENT. SERIES E BONDS, WHICH MATURE IN 7 YEARS, PAY AT THE RATE OF 4.15 PER CENT, WHEN HELD TO MATURITY.

"FREEDOM SHARES" MUST BE HELD AT LEAST ONE YEAR BEFORE THEY MAY BE REDEEMED. SERIES E BONDS MAY BE REDEEMED IN 60 DAYS.

THERE IS AN ANNUAL LIMITATION OF $1,350 ON "FREEDOM SHARES". THE ANNUAL LIMITATION ON SERIES E HOLDINGS IS $20,000.

THE ACTUAL MECHANICS OF THE PLAN ARE SIMPLE. IF YOU INVEST $39 -- $18.75 FOR A $25 E BOND AND $20.25 FOR A "FREEDOM SHARE" -- AND HOLD BOTH TO MATURITY -- YOU WILL GET BACK $50 -- HALF OF IT IN 4-1/2 YEARS, THE REST IN 7 YEARS.

IF, FOR EXAMPLE, YOU NOW ALLOT $6.25 FROM YOUR PAYCHECK, THUS PURCHASING A $25 SERIES E BOND EVERY THREE PAYDAYS, YOU MAY INCREASE YOUR DEDUCTION TO $9.75 AND BUY ONE $25 E BOND AND ONE $25 "FREEDOM SHARE" EVERY FOUR PAYDAYS.

IN LAUNCHING THE 1967 "SHARE IN FREEDOM" CAMPAIGN, PRESIDENT JOHNSON SAID --

> "FREEDOM MUST AT ALL TIMES BE DEFENDED, BECAUSE IT IS AT ALL TIMES BESIEGED. NOT ALL OF US ARE CALLED TO FIGHT ON THE BATTLE-FIELD. MANY OF US MUST, QUIETLY AND FIRMLY, DO WHAT WE CAN AND ALL THAT WE MUST HERE AT HOME. BUYING BONDS, REGULARLY, IS AS IMPORTANT TO THIS NATION IN THE LONG REACH OF HISTORY AS ALMOST ANYTHING WE CAN DO.
>
> "WE CAN DO NO LESS THAN THOSE WHO FIGHT AND DIE FOR OUR FREEDOMS. LAST YEAR, AMERICAN SERVICEMEN BOUGHT ALMOST $350 MILLION WORTH OF SAVINGS BONDS -- CLOSE TO $90 MILLION IN THE LAST QUARTER ALONE. BATTLE HONORS COME HARD IN VIETNAM, BECAUSE THE PRICE OF HONOR IS OFTEN THE PRICE OF LIFE. YET, IN JUNGLE AND HAMLET -- ON SHIPBOARD AND AIRFIELD -- THERE IS ONE TROPHY THAT EVERY AMERICAN UNIT PRIZES. IT IS NOT THE ENEMY'S FLAG. IT IS THE MINUTE MAN FLAG THAT SYMBOLIZES 90 PER CENT OR BETTER PARTICIPATION IN THE PAYROLL SAVINGS PLAN."

DURING THE CLOSED-CIRCUIT TELECAST WHICH ORIGINATED IN WASHINGTON AND INAUGURATED THE NEW 1967 PROGRAM TO LEADERSHIP GROUPS IN 32 CITIES AROUND THE NATION, GENERAL WILLIAM C. WESTMORELAND, COMMANDER OF THE UNITED STATES FORCES IN VIETNAM, REPORTED THAT 72 PER CENT OF THE MEN IN HIS COMMAND ARE BUYING SAVINGS BONDS REGULARLY. "AN INVESTMENT IN THE FUTURE OF AMERICA

IS NOT A GAMBLE, IT'S A SURE THING," THE GENERAL SAID. TREASURY SECRETARY HENRY H. FOWLER POINTED OUT THAT THE NEW "FREEDOM SHARES" WERE DESIGNED TO ATTRACT NEW SAVINGS, NOT TO CAUSE SHIFTS IN EXISTING SAVINGS.

"FREEDOM SHARES" -- WHICH GO ON SALE ON MAY 1 -- WILL BE OFFERED FOR ONLY TWO YEARS OR UNTIL THE END OF THE VIETNAM WAR, WHICHEVER IS THE LONGER PERIOD OF TIME.

ON FEBRUARY 23, 1967, THE EXECUTIVE COUNCIL OF THE AFL/CIO PASSED A RESOLUTION CALLING UPON ALL UNION MEMBERS TO HELP MAKE THE 1967 "SHARE IN FREEDOM" CAMPAIGN A SUCCESS. PRESIDENT GEORGE MEANY, IN URGING ALL SEGMENTS OF THE AFL/CIO TO GIVE FULL BACKING TO THE SAVINGS BONDS PROGRAM SAID, "THE UNITED STATES IS ENGAGED IN A PAINFUL WAR IN DEFENSE OF FREEDOM -- THE FREEDOM OF A NATION TO SEEK ITS OWN DESTINY, SECURE AGAINST AGGRESSION. EACH DAY, AMERICANS GIVE THEIR LIVES TO THAT CAUSE. BY SUPPORTING THE BOND DRIVE WITH DOLLARS, WE AT HOME CAN DEMONSTRATE IN AT LEAST A SMALL WAY OUR WILLINGNESS TO DO OUR PART . . . AS INVESTMENTS, THE BONDS OFFER ABSOLUTE SECURITY AT AN ADEQUATE INTEREST RATE."

RENO ODLIN, A PAST PRESIDENT OF THE AMERICAN BANKERS ASSOCIATION, REMARKED "THERE'S NOTHING MAGIC ABOUT SAVINGS BONDS, BUT THERE IS MAGIC IN PAYROLL SAVINGS". HIS VIEW WAS UNDERSCORED BY A FACTORY WORKER'S COMMENT ON THE PAYROLL SAVINGS PLAN -- "IF YOU DON'T SEE IT, YOU DON'T SPEND IT".

VICE PRESIDENT HUBERT H. HUMPHREY, CLOSING SPEAKER ON THE TELECAST, CAUTIONED THAT "THE ROAD TO FREEDOM IS NOT A FREE SUPERHIGHWAY. THERE ARE SOME TOLL STATIONS ALONG THE WAY."

THROUGH YOUR SUPPORT AND PARTICIPATION, WE CAN MINIMIZE THOSE TOLLS. SIGN UP FOR ALL THAT YOU CAN. AS THE 1967 CAMAPIGN SLOGAN SAYS -- IN REFERENCE TO OUR FIGHTING MEN IN VIETNAM -- "BUY WHERE YOU WORK -- THEY DO."

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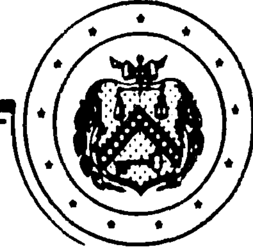
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
sday, March 7, 1967.

RESULTS OF TREASURY'S OFFER OF ADDITIONAL $2.7 BILLION IN JUNE TAX BILLS

The Treasury Department announced that the tenders for an additional $2,700,000,000, thereabouts, of Tax Anticipation Series Treasury bills dated October 1t, 1966, uring June 22, 1967, were opened at the Federal Reserve Banks today. The additional unt of bills, which were offered on March 1, 1967, will be issued March 13, 1967, 1 days to maturity date).

The details of this issue are as follows:

Total applied for - $3,923,799,000
Total accepted - $2,702,560,000 (includes $224,599,000 entered on a non-competitive basis and accepted in full at the average price shown below)

Range of accepted competitive bids:

High	- 98.841	Equivalent rate of discount approx. 4.131% per annum
Low	- 98.788	" " " " " 4.320% " "
Average	- 98.795	" " " " " 4.295% " " 1/

(61% of the amount bid for at the low price was accepted)

Federal Reserve District	Total Applied for	Total Accepted
Boston	$ 162,982,000	$ 143,044,000
New York	1,665,972,000	1,169,992,000
Philadelphia	119,420,000	58,420,000
Cleveland	144,654,000	101,654,000
Richmond	56,690,000	41,090,000
Atlanta	133,715,000	104,145,000
Chicago	687,110,000	423,090,000
St. Louis	124,475,000	63,225,000
Minneapolis	161,920,000	117,647,000
Kansas City	73,260,000	65,587,000
Dallas	197,801,000	87,071,000
San Francisco	395,800,000	327,595,000
TOTAL	$3,923,799,000	$2,702,560,000

This is on a bank discount basis. The equivalent coupon issue yield is 4.42%.

F-838

FOR RELEASE AFTERNOON NEWSPAPERS OF
THURSDAY, MARCH 9, 1967

TREASURY DEPARTMENT
Washington

REMARKS BY ARNOLD SAGALYN, DIRECTOR
OFFICE OF LAW ENFORCEMENT COORDINATION,
U. S. TREASURY DEPARTMENT, AND U. S. REPRESENTATIVE
INTERNATIONAL CRIMINAL POLICE ORGANIZATION - (INTERPOL)
BEFORE THE NATIONAL SYMPOSIUM ON LAW ENFORCEMENT SCIENCE AND
TECHNOLOGY -- SESSION ON WEAPONRY
CHICAGO, ILLINOIS, THURSDAY, MARCH 9, 1967

THE POLICEMAN'S GUN IS BACKFIRING

Approximately 100 years ago, Gilbert and Sullivan immortalized the refrain, "A policeman's lot is not a happy one." We have not done very much to improve it since then.

This neglect is exemplified in our primitive, inadequate police weapons. To protect himself and the community and to maintain law and order, a police officer today must still depend on the same weapons which were standard equipment for our police nearly 100 years ago -- the police stick and a lethal gun. Science and Technology come back from the moon, and look at our urban craters!

For the limitations and ineffectiveness of the police officer's weapons leave him dangerously exposed to the

hazards he faces in his work. Today, every time a police officer responds to a call for assistance, every time he stops a person who has violated a law, he faces the risk of physical injury and death.

Statistics compiled by the Federal Bureau of Investigation indicate that one out of every ten police officers, more than 20,000 men, will be assaulted this year. Of those attacked, 40% will suffer personal injury. During the six-year period between 1960-1965, 278 police officers were killed in the line of duty. Incomplete reports so far indicate that more than 50 men died from injuries in 1966. An equal, if not larger, number of officers will lose their lives this year.

Our obsolescent, 19th Century police weapons are jeopardizing the safety of more than just our police. They are also posing a danger to the peace and welfare of our urban communities. In the past few years there has been increasing evidence that the employment of these same defensive weapons -- particularly the gun -- to enforce the law and maintain civil order is creating far worse problems than those the police are attempting to solve.

For the police officer's basic weapon, his gun, lacks the flexible response capability needed to deal with the specific type of problem involved. The inability of the police officer to control the degree and deadliness of this physical force in proportion to the nature and quality of the threat has put him -- indeed the entire community -- in a critical dilemma.

Let us look at some of the problems our police face when they have to rely on conventional police weapons. The need to use physical force and weapons often develops when an officer is making an arrest. If there is resistance, the officer may be physically assaulted or threatened with a dangerous weapon. Under such circumstances the officer feels compelled to take effective counter-measures to defend himself, as well as to secure the arrest and custody of the violator.

Take the case of resistance which does not appear to involve a threat of physical injury. This is often the situation encountered in dealing with drunks. The police officer currently has no effective capability to handle the

resisting person without the use of some physical force that may prove injurious. He must either grapple with the person and seek to restrain him bodily, or he must try to incapacitate him with his police stick.

If the police officer faces the risk of serious injury, whether it be from physical assault, a knife, or a gun, he has no really effective alternative to shooting his assailant in self defense.

If the problem involves a person who tries to flee, either on foot or by car, the police officer is strongly motivated to prevent the escape. This often means stopping the fugitive by shooting him. Such shootings have been the cause of severe criticism in many communities lately. This has been particularly true when the persons who are injured or killed are not hardened or habitual criminals, but instead are juveniles and youths. For public policy and our laws regard such young people in a special way. We hold out greater hope for their rehabilitation and return to society as lawful, productive members of their communities.

The police officer also faces public condemnation when

he shoots a person whose offense is of a relatively minor nature and does not involve a crime of violence. Moreover, shots fired at a fugitive, even when they are just warning shots, have sometimes injured or killed innocent bystanders. The resulting unfavorable community reaction has further aggravated the problem of the police in their relations with the public.

The police face another serious dilemma in dealing with individuals and crowds involved in demonstrations. This is particularly true when such demonstrations may start out peacefully, but later develop into lawlessness and acts of violence. Since the persons participating in lawful demonstrations are not criminals and tend to include women and children, and considering the fact that many innocent spectators may be drawn to the scene, the absence of any appropriate, effective alternative to the use of conventional police weapons to control such situations poses an appalling problem for the police as well as for the entire community. Riot sticks and guns -- in fact, any type of injurious physical force -- are recognizably a very unsatisfactory way of dealing with such law enforcement

problems.

As you can see, the police are forced to make a fearful choice. The weapons and physical force now available to them result in either too much or too little restraint. At the present time, they have no safe and effective capability to control improper human behavior or to neutralize various types of physical threat without inflicting some temporary or permanent physical injury on the victims. As indicated earlier, in dealing with the wide range of law enforcement problems with their varying degrees of seriousness and danger, our police officers have a critically limited and inflexible spectrum of defensive and offensive options from which to choose.

The result has been increasing accusations of excessive, unnecessary police force and a serious worsening of community-police relations in many urban areas. More and more the police officer who resorts to the use of his police weapons to deal with offenders of varying degrees finds himself abused and threatened with physical assault by the victims of his enforcement action, as well as by hostile sympathizers in

the area. In some communities police force has tended to incite retaliatory violence.

An analysis of recent riots by the staff of the President's Crime Commission led to the observation that the use of conventional police force and related police practices, while lawfully employed, were often the incendiary factor that ignited the widespread disorders and rioting which have taken place in a number of our cities during the past few years.

The following specific examples illustrate very sharply the important considerations and consequences involved in using injurious police force in many urban communities today:

<u>July 16, 1964</u> - A New York police detective is confronted by a knife in the hand of a 16-year-old boy. In defending himself, he shoots and kills the youth. Public indignation and anger spark five days of rioting that result in one death, 118 injuries, millions of dollars in property damage, and an embittered community.

<u>September 6, 1966</u> - In Atlanta, Georgia, a police officer shoots and injures a youth suspected of

stealing a car. As a result of the shooting, protest demonstrations are organized which erupt into rioting.

September 27, 1966 - In San Francisco, California, a juvenile fleeing from a car believed to have been stolen is shot and killed by a police officer. This shooting ignites three days of rioting and violence.

If the purpose and justification of our police weaponry is to protect lives and property, maintain public order, and enforce compliance with our laws, we need to ask ourselves whether our present policy and methods of applying physical force are proving counter-productive. For when the use of police force to deal with a law enforcement problem results in far greater harm to the public safety and welfare of the community than the offense in whose name it was employed, it is time to reevaluate the value and wisdom of such a police practice.

While such physical force may temporarily suppress a violation of the law or counter a threat to individual or public safety, in the long run the employment by the police

of injurious and lethal force will only aggravate the unsatisfactory police-community relations currently existing in so many urban areas. To the extent that our police weapons serve to engender counter-violence and inflame the community, their continued use as now employed will pose grave consequences for our domestic tranquility.

The legal justification governing the use of deadly force against a person suspected of a felony appears to be based on the historical precedent that at one time every felony was punishable by death. In this connection one legal commentator wrote: "The rule that an officer or a private person may do all that is reasonably necessary to effect an arrest for an atrocious felony, even to the taking of the life of the arrestee, is of ancient origin. Originally it was based upon the theory that such a one had forfeited his life to the community, for all felonies were punishable by death at the time."

Today there are few crimes in the United States which are punishable under the law by death. Indeed, there has been an increasing number of states which have abolished

capital punishment or else severely restricted its application. Only one person was executed during 1966 in the entire United States. Moreover, the report of the President's Crime Commission states: "All available data indicate that judges, juries, and governors are becoming increasingly reluctant to impose or authorize the carrying out of a death sentence."

Insofar as its deterrent effect is concerned, the Commission found that there was no discernible correlation between the availability of the death penalty and the homicide rate.

In the light of the changes which have occurred in recent years to restrict if not eliminate capital punishment, it would seem appropriate and prudent to limit the police use of firearms and deadly force to those situations where it is necessary to save a life or to prevent serious bodily harm. In the absence of any serious physical danger to the police officer or any other person, the use of a gun or other means of deadly force to effect an arrest or maintain law and order does not seem justified. Such a policy and prohibition would clearly be in the best interest of the police as well as the public, and would eliminate the source of many grievances

that now aggravate police-community relations.

This is the time, also, for all of us concerned with the processes and philosophy of the law to ask: Can a civilized democratic society based on due process of law countenance the physical injury or killing of a person without due process? Particularly when the offense is of such a nature that the person so convicted in a court of law would not suffer a penalty worse than the loss of some property or only his liberty for a relatively short period of time?

As a practical measure, a great deal can be done to bring police practices in the use of deadly force into accord with the realities of present attitudes toward capital punishment. This can be accomplished by police administrators through the issuance of proper guidelines on the use and justification of physical force and lethal weapons in dealing with specified violations or threats an officer may encounter in the course of duty. The failure of responsible officials to provide clear guidelines and policy as to when police may employ physical force has placed an unreasonable burden

and responsibility on the individual officer. The absence of such instructions has undoubtedly encouraged the police practices which have generated charges of unnecessary police force and led to retaliatory violence.

While the police officer is instructed on the proper care of the gun and is taught <u>how</u> to shoot, he is generally given little, if any, guidance as to <u>when</u> he should shoot. The relatively few police departments that have any written policy or guidelines governing the use of firearms tend to limit them to merely counseling officers to "exercise the greatest possible caution" or "to use good judgment". In essence, the decision to shoot -- and perchance to kill -- is left entirely up to the discretion and judgment of an officer.

In the Federal Government, the Federal Bureau of Investigation and the Treasury law enforcement agencies have a firm written policy that a firearm is not to be used except in the defense of a life. However, in most local communities today, a police officer is authorized to use his firearm in dealing with felony situations where no threat to life is involved.

And many law enforcement agencies permit the use of a gun in apprehending persons whose offense may involve at best only a suspicion of a property crime or even a misdemeanor. The practice of shooting to stop a speeding motorist, for example, is far from an isolated occurrence.

The President's Crime Commission took special note of this dereliction when it commented on the failure in most cities to provide police officers with guidance as to when firearms may be drawn and used. In its report to the President a few weeks ago, it made the following recommendation:

"A comprehensive regulation should be formulated by every chief administrator to reflect the basic policy that firearms may be used _only_ when the officer believes his life or the life of another is in imminent danger, or when other reasonable means of apprehension have failed to prevent the escape of a _felony_ suspect whom the officer believes presents a serious danger to others."

A similar prohibition on the use of deadly force is proposed in the Model Penal Code of the American Law Institute.

While the promulgation of needed guidelines on the use of his weapons will lead to improved community-police relations, they will not help the individual police officer who will still be exposed to serious personal injury from assault and dangerous weapons. For his present weapons are often ineffective in countering and neutralizing the physical threats he faces. He needs -- and needs urgently -- new and more effective means of assuring his and the public's protection and of keeping the peace. He needs a weapon capable of controlling the wide range of law enforcement problems he must deal with every day.

The application of science and technology now makes it possible to develop alternative, non-injurious methods which will provide a police officer with equal if not superior security to his gun and his police stick. Such a weapon should be capable of immobilizing and neutralizing an assailant or offender for a short period of time, without any harmful aftereffects. It should have an additional capability to mark a person or vehicle seeking to escape from the officer with a readily identifiable color, odor or other recognition feature, thereby helping to assure the identification and apprehension of the fugitive.

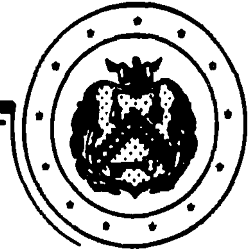
We hope eventually to be able to look forward with some

confidence to a single, all-purpose weapon that will provide the police officer with a highly effective offensive as well as an assured defensive capability. It should be a weapon that will safely, harmlessly neutralize physical threats; and it must enable the police officer to control unlawful and violent behavior of persons in a way that will earn the confidence and support of the entire community.

In the final analysis, it is important that we all recognize that the real source of police power is derived from public support and cooperation. Without the respect and cooperation of the public, the police cannot function successfully. While they may continue to enforce the law and maintain law and order through fear and physical force, they will do so at the cost of an increasingly hostile, alienated community in which there can be no real security or peaceful orderly progress.

The applications of science and technology have created fantastic new defensive capabilities and sources of strength for our national security. They can play an equally important role in helping our law enforcement agencies assure the civil security in our urban communities.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 8, 1967

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 16, 1967, in the amount of $2,303,920,000, as follows:

91-day bills (to maturity date) to be issued March 16, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated December 15, 1966, and to mature June 15, 1967, originally issued in the amount of $1,000,868,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 16, 1967, and to mature September 14, 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, March 13, 1967. 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 March 16, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 16, 1967. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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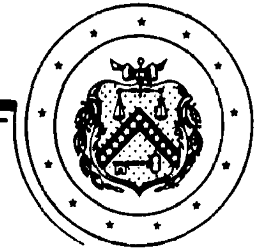
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 8, 1967

FOR IMMEDIATE RELEASE

WITHHOLDING OF APPRAISEMENT ON
PIG IRON

The Treasury Department is instructing customs field officers to withhold appraisement of pig iron from Romania 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 (19 U.S.C. 160 et seq.). 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 19, 1967. Pursuant to section 14.6(d), Customs Regulations (19 CFR 14.6(d)), an "Antidumping Proceeding Notice" pertaining to this merchandise was published on page 3404 of the Federal Register of March 1, 1967.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE TAX EXECUTIVES INSTITUTE
17TH ANNUAL MID-YEAR CONFERENCE
AT
THE SHOREHAM HOTEL, WASHINGTON, D.C.
THURSDAY, MARCH 9, 1967, 2:15 P.M.,EST

(Delivered by Richard O. Loengard, Jr.,
Special Assistant for International Tax Affairs)

CURRENT DEVELOPMENTS IN THE UNITED STATES TREATMENT OF INTERNATIONAL TAX MATTERS

I appreciate this opportunity to give you a survey of developments relating to international tax matters. I shall be talking about significant changes taking place as a result of continuing efforts to provide the proper framework for the tax treatment of transactions that cross our borders. The Treasury welcomes your comments, which will, I can assure you, be closely studied.

We may start with the legislative changes. Last year saw the enactment of the Foreign Investors Tax Act, the first comprehensive revision of our tax treatment of foreign investors. It accomplished the purpose sought: a more rational tax structure for foreigners with United States income that would be consistent with international standards, reflect a proper balance of tax treatment for our own citizens, and eliminate irrational and unwarranted barriers to foreign investment in the United States.

The Act was drawn up carefully to achieve its objectives without offering improper tax incentives to attract investment here that would have led to matching or even greater incentives by other countries, in a fruitless scramble for investment dollars. Nor does the Act seek to claim an undue

share for the United States out of the income generated by international investment -- a claim that not only could have placed obstacles in the way of our obtaining a proper part of that investment but also could have led to excessive demands by other countries regarding the earnings from our investments overseas.

This Act broke new tax ground in several of its approaches. It met the problem of how unilaterally to rationalize our structure for taxing foreigners -- without thereby losing our bargaining power to obtain through tax treaties proper treatment for our citizens who invest or trade abroad -- by delegating authority to the President to withdraw our unilateral concessions if he found our rules were not being reciprocated. This preservation of bargaining power was also strengthened by giving the President authority to raise income tax on foreigners to the extent and in the way necessary to combat any discriminatory action by foreign countries against our taxpayers.

Next, as insurance that the liberality, in contrast to prior law, of some of the new rules applicable to foreigners, especially the estate tax rate reductions and the confinement of our income tax to the withholding rates, would not lead to tax-motivated expatriation by our citizens, the Act applies for 10 years the rates applicable to our citizens to the United States property and income of such persons.

The Act dealt with the increasing tendency of foreigners to take advantage of the mechanistic and precise formulation of our rules regarding the source of income -- and hence the scope of our asserted jurisdiction to tax foreigners -- by developing arrangements that avoided United States tax on certain business activities conducted by them in the United States, and thus in some cases utilizing the United States as a tax haven. The solution devised is that of increasing the jurisdictional scope of our income tax to reach certain described income that is "effectively connected" with such business activities, again carefully described,in the United States. This step places our jurisdictional rules -- and thus our ability to assert a proper claim for our share of tax in these situations -- on a parity with those of most other countries, which had long used similar rules.

There are, however, some doctrinal hazards in the Act as it emerged from the Congress. The extension of the jurisdictional scope of our tax system to reach these business activities, through the concept of "effectively connected," left our traditional source rules unchanged. Other countries bring such income within their tax jurisdiction by treating it as having its source within their country. As a consequence, we use more structural building blocks than these countries do in applying their tax to these types of income. On the other hand, our approach lends itself more easily to our allowance of a foreign tax credit against our tax on this income.

In addition, the jurisdictional test of "effectively connected" in these cases unfortunately uses terminology similar to that applied to meet a different situation -- that of whether certain investment income, whose source is traditionally regarded as being from within the United States, is so related ("effectively connected") to a trade or business in the United States so as to be taxed along with the income of that trade or business rather than being taxed separately under the rules relating to investment income. But hopefully Regulations, and commentators, will be able to allay any confusion that might result from these doctrinal hazards. These Regulations are now in process.

The other important legislation involves the Interest Equalization Tax and the bill just reported by the House Ways and Means Committee. The purpose of the Interest Equalization Tax is to insert a tax wedge in the international transactions by which foreigners borrow or otherwise obtain our capital that compensates for the differential between our lower interest rates and the higher rates that are charged abroad. This is done so that the amount of our capital that goes abroad will not be materially increased as the result of our policy to maintain lower interest rates for our domestic economy. This purpose of the Interest Equalization Tax must be achieved in a world where interest rates in various countries are to a large degree the reflection of a variety of domestic fiscal and monetary policies constantly changing in response to a variety of economic conditions.

The monetary powers of modern governments are exercised in a highly flexible fashion. Consequently, a tax wedge whose amount is rigidly fixed will not always be able to perform its task -- the wedge may at different times be too little or too large. The task is to achieve a mechanism that permits the wedge to expand or contract as the differential itself varies in response to monetary policies here and abroad. Only in this way can we permit our monetary policy to perform its important tasks without undue distortion by balance of payments considerations. In response to this objective, the new legislation as reported by the Ways and Means Committee gives the President authority to vary the rates of IET tax so that their effect on international interest differentials can vary from 1 percentage point to 1-1/2 points, rather than remain at a fixed rate.

When we turn to administrative activity, developments largely relate to a number of Regulations and rulings which are now being brought to a final conclusion. Most important here are the Regulations relating to Sections 482 and 861 of the Code, involving allocations of income and expenditures in international transactions. A large number of helpful comments have been received and we are in the process of reviewing them.

These Regulations clearly plow new tax ground in the attempt to formalize the rules of allocation that should govern the relationships between taxpayers and the United States Government and between the United States Government and foreign governments. We believe that one of the major advantages derived by taxpayers and the Government from publication of the guidelines in these Regulations will be the element of certainty injected into the application of these provisions of the statute.

We realize that in the past the statute has not always been applied consistently, especially in the foreign area. This inconsistency of approach was, of course, the reason for granting the relief found in Revenue Procedure 64-54. This aspect can be even more significant in situations where there are delays in completion of United States tax audits, as a result of which Section 482 issues may be decided years after the events to which they relate took place and have an impact on transactions in all of the intervening years which remain open. One of the major purposes of the Regulations is to give taxpayers the opportunity to plan their affairs

in such a way as to reduce substantially the risk of adjustment on audit and the consequent long-term uncertainty on the finality of their overseas transactions.

The Regulations thus mark the closing of one chapter of tax administration, characterized by taxpayer arrangements made and IRS agent scrutiny conducted without the discipline of guidelines, and the opening of a new chapter involving that discipline through an integrated set of guidelines. But we are hopeful that the Regulations will also mark the path to further developments in this field. We believe they will add impetus to the growing efforts of management to obtain objective methods of measuring the achievements and progress of the various components of our larger international enterprises.

It is the fate -- and responsibility -- and opportunity -- of tax measures and regulations to give a formal structure to many of the somewhat formless and more loosely conceived rules that guide business interrelationships. But once management and their advisors see their working rules of thumb captured in a formal structure and set down with greater sharpness and particularity, they are generally induced to focus more intently on those rules and their objectives. This result is all to the good, for it can only lead to progress in developing our tools and processes for the task of measuring profits and performance, a task that is of vital importance to modern business.

Equally, we are hopeful that this effort on the part of the United States will cause other countries to look with similar care at their own rules in this area. To move this process along, we are proceeding within the OECD Fiscal Committee both to explain our rules and then to ask other Governments questions of this nature: Will you allow as deductions the payments which the marketing or manufacturing subsidiaries in your jurisdiction would need to make to its United States parent under our rules? Would you be satisfied to obtain payments from marketing or manufacturing subsidiaries in our country to your parent companies in accordance with these rules? Where we are both agreed on the operative rule -- say, an arm's length sales price or a charge of services at cost -- but may initially reach variant results on applying the rule to the facts of a particular case, how will we harmonize our approaches? In this fashion we can achieve the coordination among Governments necessary for fair international treatment of taxpayers.

Closely tied in with these efforts is the study we are making of the competent authority procedure. Modern tax treaties -- and tax treaties under modern conditions -- place increasing reliance on an efficient and informed working of this procedure. These treaties, like any tax statute, require an alert and effective administration and the competent authority procedure is the administrative agency for our tax treaties. Here also we are combining a study of our own effectiveness with efforts in the OECD Fiscal Committee to consider these same issues on the international level.

More closely related to our domestic tax rules is the proposed Revenue Procedure on the operative effects of Section 367. The published proposal has brought forth many helpful comments which are now being studied. Work is also proceeding in a companion area, that of the application of Section 351 to transfers of know-how to foreign subsidiaries. We recognize the existing dissatisfaction with the present rules and are seeking an appropriate solution.

Let me now turn to our international tax treaties. We will shortly sign the revision of our income tax treaty with France. This is far more than a simple revision, and really represents a whole new treaty. It is our first negotiation with a country desirous of staying as closely as possible to the OECD model draft in structure and terminology. As is to be expected, active negotiation around a model develops a number of probing questions with respect to the model that were not surfaced in its formulation. The French negotiation has resulted in an adaptation of that model in its technical aspects to a concrete treaty between two countries with tax structures that differ in a number of ways. In large part the French treaty should prove to be a model we can use in negotiations with other countries that lean strongly to the OECD draft.

Two events last year marked our tax relations with the South American countries. We negotiated an interim treaty with Trinidad and Tobago as a step toward the complete revision that was initiated as a consequence of changes in their domestic tax system. Honduras terminated its treaty with the United States. This was the first treaty that had been negotiated with a less developed country -- in 1956 -- and its termination grew out of its

inadequacies. While we are quite desirous of negotiating a new treaty, we are also conscious of the need to have our treaties with Latin American countries develop along a common basic pattern.

We hope that this year we will be able to make substantial progress toward starting a tax treaty network with the Latin American countries. We have been engaged for some time in negotiations with Brazil and are encouraged by their progress. We are also currently negotiating a tax treaty with Jamaica. The current treaty with that country is an extension of the former United Kingdom treaty. As stated above, negotiations with Trinidad and Tobago are also scheduled for this year. We are also hopeful other Latin American countries will be entering into discussions with us to explore the feasibility of negotiations.

There is great awareness in Latin America of the desirability of tax treaties -- an awareness which we share in this country and an interest which is matched in many industrialized countries seeking increased trade and investment with that area.

These tax treaties can play a most useful role in the economic development and integration of that area. Moreover, treaties by Latin American countries with industrailized countries of other continents will in turn facilitate the negotiation of a network of treaties among the Latin American countries themselves. Such a network -- long ago accomplished within the European economy -- is one of the steps needed to achieve a common Latin American market and a harmonization of their tax structures.

Our steps to modernize and expand our treaties with the industrialized world and to extend our tax treaty relationships to the less developed world must be matched by steps to coordinate the many new treaties that have resulted and are in progress. One aspect of the latter task is to proceed, as far as the realities of the negotiating process permit, with basic models -- principally one for industrialized countries, with some variations depending on the attraction possessed by the OECD model in some of its aspects, and one for less developed countries.

The realities of negotiation often produce certain differences in language and structure. However, these differences frequently are not intended also to produce changes in substance. As a consequence,we believe that coordination depends finally on developing a master set of treaty regulations that will delineate both the substantive rules that are common to the various treaties and the variations in those rules. In this way we would identify those cases where changes in terminology are intended to have substantive significance. In addition, we can also coordinate the interpretation of those new statutory rules introduced last year which embody similar concepts. We have made considerable progress in developing this approach to treaty regulations and are hopeful our goal can be achieved.

We are also preparing for activity in the estate tax treaty area now that the OECD has finished its formulation of a draft model for these treaties. There is considerable interest in a number of countries in estate tax treaties and we share that interest. We would be aided by your examination of the OECD model, and we invite your comments.

oOo

Statement of Fred B. Smith
General Counsel of the Treasury Department
To the Subcommittee on Administrative Practice and Procedure
of the Senate Judiciary Committee on S. 518, March 7, 1967

I welcome the opportunity to appear before the Subcommittee on Administrative Practice and Procedure on behalf of the Treasury Department, on S. 518, and to comment on this revised legislation to amend the Administrative Procedure Act of 1946. As you know, representatives of the General Counsel's office have participated actively in the consideration by this Subcommittee of S. 1663 in the 88th Congress and of S. 1336 in the 89th Congress. We also participated in the Symposium on S. 1336, held December 1, 1966, under the sponsorship of the Special Committee on a Code of Federal Administrative Procedure of the American Bar Association, with a panel on which your staff was represented.

We are gratified that the consideration by this Subcommittee of these past presentations has resulted in substantial and valuable revisions of the legislation to meet many of the serious objections advanced on behalf of this Department. Our past criticisms have been directed toward those provisions of the prior bills which we have believed would handicap the efficient, fair and effective administration of the laws within the responsibility of the Treasury Department, particularly, the laws governing internal revenue taxation and customs duties. Also, some of these provisions, by delaying the administrative process, would have operated against the interests of our citizens.

My comments today are presented in the same spirit. We welcome all the changes that now distinguish S. 518 from S. 1336. However, there remain a few basic problems which we consider of sufficient importance to explain to the Committee at some length, in the hope and expectation that these problems also may be satisfactorily resolved.

I. The definitions relating to adjudication

The basic problems respecting adjudication throughout S. 518 stem from the ambiguous and circular definitions in section 2 of four key words relating to adjudication -- "proceeding," "adjudication," "order," and "party." These definitions appear, in their logical order, in subsections (g), (d) and (b) of section 2.[1] It will be observed that "proceeding" is defined, in relevant part, as adjudication; "adjudication" means agency process for the formulation of an order; "order" is defined as the final disposition in a proceeding involving named parties, and "party" is

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1 "(g) 'Agency proceeding' means any agency process as defined in subsections . . . (d) . . . of this section."

"(d) 'Adjudication' means agency process for the formulation, amendment or repeal of an order."

"(d) 'Order' means the whole or any part of the final disposition . . . by any agency in any proceeding, including licensing, to determine the rights, obligations and privileges of named parties."

"(b) 'Party' includes any person or agency named or admitted as a party, or properly seeking and entitled as of right to be admitted as a party, in any agency proceeding."

defined as a person named or admitted in a proceeding. The definitions, therefore, lead in a circle back upon themselves.

I am pointing this out, not as an exercise in semantics, but because the intelligent administration of at least seven major provisions of this legislation is dependent upon a clear and uniform understanding of these four key words. These seven major provisions are the following:

> Section 3(b) requires every agency to make available for public inspection and copying, and to index with identifying information "all orders made in the adjudication of cases."
>
> Section 5(b) requires that "in all other cases of adjudication [i.e., not required to be decided on the record after opportunity for a hearing] the agency shall by rule provide procedures which shall promptly, adequately and fairly inform the agency and the parties of the issues, facts and arguments involved."
>
> Section 5(c) requires every agency to "afford all parties an opportunity, at such time in advance of the proceedings . . . or, . . . at any time thereafter . . . to submit and have considered offers for the settlement or adjustment of the questions presented."
>
> Section 6(a) provides that "[e]very party shall be accorded the right to appear in person or by or with counsel or other duly qualified representative in any agency proceeding or investigation."

Section 6(e) requires every agency, unless otherwise provided by statute, to "issue subpenas upon request to any <u>party</u> to an <u>adjudication</u>."

Section 6(h) requires every agency to make available, apparently in all <u>proceedings</u>, depositions and discovery, either to the same extent as in Federal district court proceedings or as otherwise provided by published rule.

Section 9(b) places penalties upon agency publicity which a court finds was issued to discredit "a <u>party</u> to an agency <u>proceeding</u>."

I should hope that the fair implication derived from the definitions of the four key words in section 2 and their usage in the above sections would be that adjudication is an agency process in which a named party participates in the presentation of issues of fact, law or discretion, which process culminates in a final decision (which may be accompanied by findings of fact and conclusions of law, namely, an "opinion" under section 2(d)), thus constituting a relatively formal quasi-judicial proceeding.

However, the definitions of the key words relating to adjudication may actually include under adjudication a wide variety of additional agency actions which constitute determinations of the rights, obligations, and privileges of named persons, where under authority of law the agency reaches these determinations unilaterally solely on the basis of documents submitted, or facts otherwise before it, without participation by the person concerned.

Characteristically, this type of agency action results only in an initial determination which is subject to protest or appeal either within the agency or to a court, but which is final if not protested or appealed. For example, the vast quantity of customs and internal revenue determinations are made on the basis of the documents submitted by the person concerned, with the statutory right of protest to the agency or to the specialized Customs Court or Tax Court.

Apparently all initial determinations are considered by the drafters of this legislation to be adjudications because the new last sentence of section 5(b), pertaining to what may be referred to as informal adjudications, provides that the subsection "shall not apply to initial determinations with respect to public property, loans, grants, benefits, contracts, inspections, tests or elections." Since initial determinations by the Customs Bureau and the Internal Revenue Service of assessments of duties and taxes are not included in this exemption, it certainly could be argued that they are covered. However, they may in fact be excluded by the new opening clause of this subsection "[u]nless expressly otherwise provided by statute," since the procedure for the assessment of duties and taxes is covered in the Customs and Revenue laws. (We would hope, however, that at a minimum a statement would be put in the Committee Report to this effect, in order to be sure of the availability of this clause in such customs and revenue cases.)

However, even if section 5(b) did not require semi-adversary proceedings in the countless millions of initial determinations of duties and taxes, it would still be necessary to decide the application to these determinations of the other provisions of S. 518, which I have listed, for the public disclosure of all final opinions and orders in the adjudication of cases, for providing an opportunity for "settlement," for the appearance of parties and counsel, for the required issuances of subpenas, etc. The application to the initial determinations described of procedural privileges and requirements designed for adversary proceedings is clearly inappropriate, but seems to be required by the use of the key words pertaining to adjudication throughout S. 518.

To cure the ambiguity and circularity of the legislative definitions, I recommend that the definition of adjudication in section 2(d) be restricted to the type of proceeding which the Committee appears to have in mind. One means of accomplishing this would be the addition of an exclusionary sentence stating that "adjudication does not include the initial determination which an agency is authorized by law to make unilaterally on the basis of documents submitted, or facts before it." An alternative method would be to re-define the term "adjudication" to mean "agency process for the receipt and examination of evidence and argument on disputed issues of law, fact, or discretion, and for decision resulting in the formulation, amendment or repeal

of an order." Drafts of these alternative amendments, and of amendments later proposed to other sections, are attached to my written statement.

II. Problems respecting the rulemaking provisions

There are three areas in section 4 on rulemaking in which this Department strongly recommends clarification to prevent confusion among interested persons and the agencies and needless litigation, and to carry out the apparent intent of the drafters of this legislation. These areas are the following:

1. The legal effect of a petition which, under subsection (g), any interested person may make for the issuance, amendment, exception from or repeal of a rule needs to be made definite. The proposed wording of subsection (b), referring to "rulemaking to be undertaken by the agency on its own motion or pursuant to petition," might be taken to require the initiation and completion of rulemaking procedures pursuant to any petition received, regardless of its merits. The chaotic effect of such an interpretation may be seen clearly, for example, in revenue operations where the stability and reliability of promulgated rules are of cardinal importance. Revenue rules would be in a constant state of upheaval if rulemaking were required on the strength of every petition. We recommend that the text of section 4(b) or the Committee report make clear that rulemaking pursuant to petition is to occur only with the consent of the agency.

2. Subsection (d) on emergency rules contains a provision on the extension of emergency rules which is inconsistent with

the explanation given by the Senate Committee in its report on this provision in S. 1336. The provision reads: "The agency may extend such emergency rule for a period not to exceed one year only by commencement, prior to the expiration of the original effective period, of a rulemaking proceeding . . ." This sentence is generally read to mean that an emergency rule may be extended only for a period not to exceed one year despite the completion of the new rulemaking procedures. The Senate Committee Report on S. 1336, however, (page 11) explains that the agency will have a year in which to complete the proceeding and re-issuance of the emergency rule or a successor rule covering the situation. On the strength of the explanation, it is recommended that the phrase "for a period not to exceed one year" be deleted from its present position and added as a limitation on the rulemaking proceeding described in the latter part of the sentence. The final phrase might then read "upon giving notice required by subsection (b) of this section, and by completing the rulemaking proceeding within a period not to exceed one year from the original date for the expiration of the emergency rule."

3. The Treasury welcomes the new exemption (6) in subsection (h). This addition exempts from the notice and public procedure provisions of section 4 "rulemaking that relates solely to the establishment or revision of monetary rates or policy." It is important, however, that this exemption be understood to embrace the various monetary and fiscal operations set forth in

the statement regarding this exemption which is being proposed to the Judiciary Committee for its report by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation. This statement is to the effect that the exemption is intended to cover "actions establishing, maintaining, or modifying interest, dividend, or credit rates, terms and conditions, or reserve balances, and actions involving debt issuance or management or the formulation of directives as to securities or currency transactions, the execution of which is related to the implementation of effective monetary or fiscal policy." The Treasury endorses this proposed statement for the reasons advanced by these four agencies, specifically, the disruptive effect on financial markets and financial institutions of prior published notice and public participation in proposed financial regulation.

I should like to add at this point that the Treasury also endorses and supports the other proposed amendments and Committee report suggestions which the four banking agencies have jointly submitted for the Committee's attention.

III. Emergency action

The provision for emergency action in section 5(a)(7) applies only to formal adjudication under section 5(a). However, it should also be available in the much larger area of so-called informal adjudication covered by 5(b), particularly if the definition of adjudication is left as broad and indefinite as it is.

The Treasury Department needs to take emergency action, for example, in the administration of section 5 of the Trading with the Enemy Act (50 U.S.C. App. 5). The Office of Foreign Assets Control must be in a position promptly to block assets in the United States from movement to proscribed areas, such as Communist China, Cuba and North Viet Nam, action which would be vitiated if the Office had to inform the owner of the assets in advance of the "issues, facts and arguments involved" in the blocking action. Consequently, we strongly recommend that the emergency action provision be made a separate subsection of section 5.

IV. <u>Ancillary matters</u>

The Treasury recommends the amendment of three of the subsections of section 6, in the interest of effective enforcement of criminal and revenue laws.

1. Subsection (a) on appearance provides in its second sentence that every party shall be accorded the right to appear in person or by or with counsel in any agency proceeding or investigation. Since the term "party" is defined only in terms of an agency proceeding, it is not clear who must be accorded the right to appear in person or by counsel during an investigation. If the provision means that any person who is the subject of an investigation must be accorded the right to appear, the provision would cripple law enforcement activities where investigations must generally proceed without disclosure to the person subject to investigation. The testimony and even the lives of informants may be jeopardized by the appearance in the

investigation of the suspected law violator. Furthermore, a taxpayer might argue that this second sentence entitles him to be present, either personally or by counsel, during questioning of witnesses before the Service. These results cannot have been intended by the drafters of the legislation. The reference to investigation in this sentence should be dropped.

2. Section 6(d) on investigation provides that every person who voluntarily or involuntarily submits data or evidence shall be entitled to retain or procure a copy or transcript thereof. Our objection is that this subsection omits the further provision in section 6(b) of the APA that in a nonpublic investigatory proceeding the witness may, for good cause, be limited to inspection of the official transcript of his testimony. The value of the present provision lies in the well known fact that a witness may voluntarily or involuntarily make his copy of the transcript available to the person under investigation, particularly in a criminal investigation, and thus prejudice the Government's case. The intimidation of witnesses by prospective defendants has occurred with particularly horrible results in connection with the enforcement of the narcotics laws. At present there is no criminal statute to preclude possible intimidation of a witness at the investigative stage. In the absence of such a statute it is believed that the present restriction on furnishing transcripts to witnesses in nonpublic investigations should be preserved.

3. Section 6(g) provides a new computation of time but makes the termination dependent upon whether the last day of the period

is a holiday or half-holiday. This leaves open the question of what constitutes a holiday in the given circumstances. The clarification provided by the Internal Revenue Code on this point, 26 U.S.C. 7503, suggests that the existence of a holiday or half-holiday should depend upon where the determinative act or event occurs, in the District of Columbia or a particular state. Amendment of this section is recommended for this purpose.

The foregoing statement attempts to single out those provisions of S. 518 of particular concern to the Treasury Department. This does not mean that we do not share in other administrative problems embodied in S. 518 which may be discussed by other agencies. We are grateful to the Committee for its attention to our statement and respectfully urge that the recommendations we have advanced be carefully considered.

Attachment

Recommendations for Amendment of S. 518
Submitted by Fred B. Smith, General Counsel, Treasury Department
To the Subcommittee on Administrative Practice and Procedure
At its Hearings, March 7, 1967

Definition of Adjudication

Alternative 1: At the end of section 2(d) add the following sentence: "Adjudication does not include the initial determination which an agency is authorized by law to make unilaterally on the basis of documents submitted or facts before it."

Alternative 2: Strike the last sentence of section 2(d) and substitute the following: "'Adjudication' means agency process for the receipt and examination of evidence and argument on disputed issues of law, fact or discretion, and for decision resulting in the formulation, amendment or repeal of an order."

Rulemaking Provisions

In section 4(b) insert the words "with its consent" following the words "on its own motion or" on line 15 of page 19.

In section 4(d) strike the second sentence and substitute the following sentence: "The agency may extend such emergency rule only by commencement, prior to the expiration of the original effective period, of a rulemaking proceeding dealing with the same subject matter as did the emergency rule, upon giving notice required by subsection (b) of this section, and by completing the rulemaking proceeding within a period not to exceed one year from the original date for the expiration of the emergency rule."

Emergency Action

Omit paragraph (7) in section 5(a), insert the provisions of paragraph (7) following section 5(c) as section 5(d), and change the word "subsection" to "section" at the end of the first sentence.

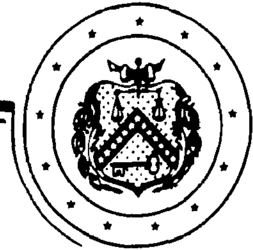
Ancillary Matters

In section 6(a) Appearance, strike the words "or investigation" at the end of the second sentence.

In section 6(d) Investigations, strike the period at the end of the section, insert a comma, and add the following clause: "except that in a nonpublic investigatory proceeding the witness may for good cause be limited to inspection of the official transcript of his testimony."

In section 6(g), insert at the end thereof the following sentence: "Holiday or half holiday means a holiday or half holiday in the District of Columbia or, if the determinative act or event occurs elsewhere, in the state in which such act or event occurs."

TREASURY DEPARTMENT



WASHINGTON, D.C.
March 13, 1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN FEBRUARY

During February 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $565,355,500.00.

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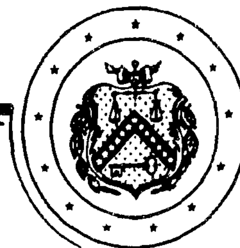
F-841

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 13, 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON SHOES
UNDER THE ANTIDUMPING ACT

The Treasury Department has determined that leather shoes from Romania, including men's and boys' of welt construction, and also shoes other than men's and boys' of welt construction, are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.).

Notices of intent to discontinue investigation and to make a determination that no sales exist below fair value were published in the Federal Register on November 8, 1966. The notice with respect to men's and boys' shoes of welt construction stated that the termination of sales and the exporter's assurances that future sales, if any, would not be below fair value, were considered to be evidence that there are not and are not likely to be sales below fair value. The notice with respect to shoes, other than men's and boys' of welt construction stated that price revisions and the exporter's assurances that future sales would not be below fair value, were considered to be evidence that there are not and are not likely to be sales below fair value.

No persuasive evidence or argument to the contrary was presented within 30 days of the publication of the above-mentioned notices in the Federal Register.

Customs officers are being instructed to proceed with the appraisement of this merchandise from Romania without regard to any question of dumping.

Imports of leather shoes from Romania, men's and boys' of welt construction, received during the period May 1, 1964, through December 31, 1966, were valued at approximately $360,000.

Imports of leather shoes from Romania, other than men's and boys' of welt construction, received during the period April 1, 1965, through December 31, 1966, were valued at approximately $425,000.

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 13, 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON FUR FELT HAT BODIES UNDER THE ANTIDUMPING ACT

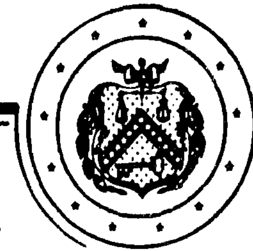
The Treasury Department has determined that fur felt hat bodies from Czechoslovakia are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.). A "Notice of Intent to Discontinue Investigation and to Make Determination That No Sales Exist Below Fair Value," was published in the Federal Register on November 30, 1966, stating that, because of price revisions, and because of unconditional assurances given by the exporter that no future sales of the merchandise will be made to the United States at less than fair value, there were not, and were not likely to be, sales of such merchandise below fair value.

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 this notice were given full consideration.

Imports of the involved merchandise received during the period January 1, 1965, through October 31, 1966, were valued at approximately $332,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

[FO]R RELEASE 6:30 P.M.,
[Mon]day, March 13, 1967.

RESULTS OF TREASURY'S WEEKLY BILL OFFERING

The Treasury Department announced that the tenders for two series of Treasury [bi]lls, one series to be an additional issue of the bills dated December 15, 1966, and [th]e other series to be dated March 16, 1967, which were offered on March 8, 1967, were [ope]ned 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 [bi]lls. The details of the two series are as follows:

[RAN]GE OF ACCEPTED [COM]PETITIVE BIDS:	91-day Treasury bills maturing June 15, 1967.		182-day Treasury bills maturing September 14, 1967.	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.920	4.273%	97.856	4.241%
Low	98.908	4.320%	97.841	4.271%
Average	98.911	4.308% 1/	97.844	4.265% 1/

84% of the amount of 91-day bills bid for at the low price was accepted
27% of the amount of 182-day bills bid for at the low price was accepted

[TOT]AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

[D]istrict	Applied For	Accepted	Applied For	Accepted
[B]oston	$ 20,282,000	$ 10,282,000	$ 12,509,000	$ 2,509,000
[N]ew York	1,542,227,000	792,294,000	1,915,872,000	875,914,000
[P]hiladelphia	27,970,000	15,920,000	15,130,000	6,673,000
[C]leveland	41,355,000	28,598,000	29,748,000	17,768,000
[R]ichmond	22,422,000	16,182,000	14,210,000	4,210,000
[A]tlanta	70,967,000	53,947,000	37,693,000	10,163,000
[C]hicago	339,246,000	119,916,000	311,107,000	41,333,000
[S]t. Louis	55,811,000	32,035,000	37,171,000	11,211,000
[M]inneapolis	21,104,000	12,872,000	10,471,000	5,531,000
[K]ansas City	35,229,000	35,141,000	10,187,000	10,087,000
[D]allas	25,466,000	18,226,000	17,248,000	6,998,000
[S]an Francisco	250,238,000	166,098,000	259,215,000	9,010,000
TOTALS	$2,452,317,000	$1,301,511,000 a/	$2,670,561,000	$1,001,407,000 b/

[a/] Includes $287,108,000 noncompetitive tenders accepted at the average price of 98.911
[b/] Includes $116,894,000 noncompetitive tenders accepted at the average price of 97.844
[1/] These rates are on a bank discount basis. The equivalent coupon issue yields are 4.43% for the 91-day bills, and 4.43% for the 182-day bills.

F-842

TREASURY DEPARTMENT
Washington

Statement by the Honorable Henry H. Fowler
Secretary of the Treasury
Before the House Banking and Currency Committee
Monday, March 13, 1967 10:00 a.m.

Mr. Chairman, I welcome the opportunity to appear before this distinguished committee. In today's session, I hope to provide you with an overall view of the nation's general economic posture from a long range perspective as background for your legislative consideration of areas under the jurisdiction of this committee.

Other committees of Congress exercise specific jurisdiction over taxes and appropriations. However, this committee must be concerned with the results of fiscal policy because of its impact on the nation's financial markets and over-all economic stability. Therefore, I would like to touch first on the public debt. Then I shall discuss recent fiscal, economic and balance of payments developments. After that I shall be glad to answer questions.

Total defense costs will rise $5.3 billion in fiscal 1968. To cover these additional defense expenditures, the budget proposes that income tax payments be increased by $5.5 billion in fiscal 1968. While providing adequately for our national security overseas, the President's fiscal recommendations conserve and maintain programs underpinning economic security and opportunity here at home.

Deficits Caused by Viet Nam

Total expenditures for the fiscal years 1966, 1967, and 1968 are, of course, very large. However, Chart 1 shows that aside from the special costs of Viet Nam in the three fiscal years ending with 1968, we would be running large and increasing surpluses, assuming, of course, the additional resources of men, materials and production facilities employed because of

the Viet Nam conflict could be transferred to other uses in our economy and not be merely idle.

In fiscal 1966, with Viet Nam costs removed, the outlays would come to $100.9 billion compared with receipts of $104.7 billion giving a surplus for that year of $3.8 billion. Even if we subtract the $1.2 billion extra revenues from the Tax Adjustment Act of 1966, which was enacted because of Viet Nam, there would still be a surplus of $2.6 billion.

In the current fiscal year, 1967, we expect a jump in Viet Nam costs to $19.9 billion, which if eliminated, would yield a surplus of $10.2 billion. Again eliminating the extra revenues produced by last year's Tax Adjustment Act, $4.6 billion in fiscal 1967, we would still wind up the year with a large surplus -- $5.6 billion.

The fiscal 1968 budget includes $22.4 billion in special Viet Nam costs. Were this to be eliminated, we would have a gigantic surplus of $14.3 billion. Since the new tax recommendations are being made to help finance a part of these costs we should eliminate the $5.5 billion in revenues from this source. Even after this is done, however, the surplus would still come to $8.8 billion, which would be the highest surplus in our history.

These surpluses, excluding Viet Nam costs, are potential surpluses. They could have been used to reduce tax rates, retire debt, or possibly to undertake or expand programs that have had to be passed up or restricted because of Viet Nam requirements.

The Public Debt in Perspective

The projected budget deficits resulting mainly from increased defense costs will, of course, require the Federal debt to rise. There is no question, however, of the capacity of our economy to carry the extra burden.

In the first place, the Federal debt has grown at a much slower rate than the economy. From the peak of more than one and one-third times the GNP in fiscal 1946, as shown on Chart 2, the public debt has steadily declined, dropping to 58% in 1960 and to 45% in 1966. We estimate that it will fall further to about 41% in 1968. This would compare with 51% in 1940, before the large wartime debt rise began. By this measure, the size of the Federal debt is a steadily lessening strain on the carrying capacity of the economy.

While the dollar amount of the Federal debt was growing slowly -- and declining relative to GNP -- State and local debt and private debt of businesses and individuals was growing rapidly. As Chart 3 shows, in the 20 years since 1946 the public debt increased by 27% while the debt of other borrowers increased to between 5 to 8 times their 1946 levels. In consequence the Federal share of total indebtedness in the country, as indicated on Chart 4, declined from 58% at the end of 1946 to 29% by December 31, 1960, and was only 22% at the end of last year. During most of the postwar period, this relative decrease in the Federal debt enabled the private economy to expand sharply without overstraining our resources.

The burden of the Federal debt on each individual has also been sharply reduced since 1946. The growth in our population has substantially exceeded the increase in the Federal debt and as a result, the debt per person has dropped from $1,909 in 1946 to $1,628 in 1966. Adjusting the per capita

debt for changes in the price level, in Chart 5 we used 1957-59 dollars, the burden per capita has declined from $2,849 to $1,439 -- or almost 50 percent. Using current dollars the decline would be less than $1,000.

An even more striking story is told when we relate the debt per person to income received. As shown in Chart 6 the decline in Federal debt per capita from $1,909 in 1946 to $1,628 in 1966, is contrasted with disposable income. Per capita disposable personal income -- the income left after Federal as well as State and local taxes -- rose from $1,132 in 1946 to $2,567 in 1966. In relative terms therefore, the debt has declined from 169% of disposable income in 1946 to 63% in 1966.

Secondly, while the debt burden has been decreasing relative to the economy, so has the interest burden. Despite the rise in debt and interest rates, interest on the debt as a percent of GNP declined from 2.3% in 1946 to 1.9% in 1960, and even after the sharp 1966 rise in rates is still about 1.8%.

Interest on the public debt is shown relative to receipts in Chart 7. In 1946 it was 12% of receipts, rising to 16% in 1950, and in 1968 are estimated at 11%. Thus even on this least favorable basis the interest burden has declined. In terms of all these measures, it would seem that, despite the increasing total of the national debt since World War II, the nation is able to bear the present burden of the existing public debt without impairment of the private economy.

Each of these measures shows that the burden of the public debt has been reduced during the past two decades. I want to stress this trend. In terms of all these measures, it is abundantly clear that we are today well able to bear the present and prospective burden of the public debt.

The Tax Burden in Perspective

All Administrations since World War II have worked hard and consistently to hold down civilian expenditures and get maximum efficiency out of every dollar of Federal spending. Before the step-up of our activities in Viet Nam, these efforts were successful enough to permit substantial tax reductions in 1962, 1964 and 1965.

The 1962 tax reduction included the investment credit. In 1964 the reductions in personal and corporate income taxes made cuts averaging 20%. The 1965 Act removed excise taxes on over 200 separate items. As shown in Chart 8, these tax actions resulted in saving taxpayers nearly $23 billion a year at fiscal 1968 income levels.

Largely as a result of these tax reductions, Americans enjoy the lowest tax burden of any major industrial country in the world -- and this includes taxes levied at _all_ levels of government -- Federal, State and local. As shown in Chart 9 the estimates of the Organization for Economic Cooperation and Development show that as a proportion of total national production, French citizens paid 38.5% in taxes; Germany, 34.4%; Italy, 29.6%; Great Britain, 28.6%; and the U.S., 27.3%.

These figures are not cited to imply that Americans are having it easy. The main purpose of the 1964 and 1965 tax cuts was to permit the private sector of our economy to flourish by alleviating the burden of high taxes.

But the figures do show that we can afford to pay for our rising defense costs and keep our economy healthy.

National Economic Performance

The response of the National economy to these public finance policies of recent years is shown in Chart 10. In the 1955-60 period our annual rate of growth was only 2.2%, far lower than virtually all of the other major countries. In the 1960-65 period, it more than doubled, rising to 4.7%. Thus, while most of the major European countries were experiencing falling growth rates, our own was rising to a position of leadership.

The truly remarkable thing about our growth during this period was that it was achieved with the most stable price level of any major industrialized country in the world. This is shown in Chart 11. Between the 1955-60 period and the 1960-65 period, the rate of price increase in the United States declined from 2.0% to 1.3%, accompanying a tremendous rise in production.

The United States continued its world leadership in growth and price stability in 1966 despite the impact of the war in Southeast Asia. As shown in Chart 12, our growth rate of nearly 5-1/2% exceeded that of all the major nations in Europe. Moreover, as shown in Chart 13, the United States had one of the best price records among the industrialized nations despite the heavy demands on the economy resulting from our activities in Viet Nam. Keeping consumer price increases below 3% under circumstances of great strain was obviously a significant achievement.

The gains in both growth and stability during the period since 1961 are illustrated in Chart 14. This shows that our average growth rate stepped up from 2.2% in the 1955-60 period to 4.7% in the 1960-65 period. If we add 1966 to that 5-year period, the growth rate reached 4.8%. The improvement in price movements was also marked. Thus price increases, as measured by the GNP deflator, averaged 2.6% in the 1955-60 period, but dropped to 1.4% in the 1960-65 period. Even if we add the Viet Nam year of 1966, average price increases were only 1.7% -- still considerably less than the 1955-60 interval.

In the 18 month period from June, 1965 to December, 1966, the United States absorbed an extra $15 billion in expenditures as a result of our activities in Viet Nam. Obviously such a burden has added to pressures on prices. In presenting his Budget a year ago, the President recognized that pressures would be great. That is why he proposed not only holding civilian expenditures at minimum levels, but also an increase in revenues through the Tax Adjustment Act of 1966.

Selective fiscal restraint in the form of a $3 billion deferment of expenditures and a suspension of the investment tax credit, was proposed and adopted later in the year. Thus, while price rises began to accelerate during 1966, these pressures slackened in the final months of the year. Monetary policy moved away from stringency as did fiscal policy. Last week the President recommended lifting the investment credit suspension because of the reduced pressures on the economy.

How well the economy has performed during the first 18 months of Viet Nam compared with its performance in other 18-month periods is shown in Chart 15. During the first 18 months of the Korean conflict, consumer prices jumped 11.1%. This compares with 4.2% during the first 18 months of Viet Nam. Such an increase is unwelcome, but remarkably moderate, considering the pressures of an extra $15 billion defense expenditures during that period. The record was even better than the 18-month peacetime period, June 1956 to December 1957, when consumer prices rose 4.6%.

Chart 15 also compares wholesale price and wholesale industrial price movements during the Viet Nam period with earlier periods. Again, recent price performance was better than either the Korean or the non-war period. The stability of these prices is vital to the maintenance of our balance of payments position.

Balance of Payments Progress

I come now to the balance of payments situation which has been a source of national and international concern since the late 1950's with massive deficits and serious declines in our gold reserves in 1958, 1959 and 1960, resulting in the mounting of a diverse program to deal with the problem in 1961 which was intensified in 1963 and, again, in 1965. By mid-1965, our goal of payments equilibrium was well within sight. Since then, the Viet Nam conflict has, of course, had a significant adverse impact.

Despite these extra costs, we have held our ground. Our "liquidity" balance and gold losses are shown in Chart 16. The liquidity balance treats changes in liquid-dollar holdings of private foreigners as part of the measure of our deficit. On this basis, last year's deficit was somewhat

over $1.4 billion -- roughly $100 million more than in 1965. This minor increase should be viewed against a far greater rise in direct foreign exchange costs associated with Viet Nam and an increase in indirect costs due to sharply higher imports. Gold losses amounted to $571 million last year. This was much below the $1.7 billion in 1965 which included a $259 million payment in connection with the increase in IMF quotas.

Chart 17 views the "official reserves transaction" balance which places the change in private foreign holdings of liquid dollars "above the line", and focuses on official holdings of reserves. On the other hand, it includes changes in certain of our non-liquid liabilities to foreign official institutions which are not part of the liquidity deficit. On this basis, we actually showed a slight surplus of about $175 million on the basis of preliminary figures. This was the first such surplus since 1960, when we began to keep figures in this fashion. The surplus was due in large part to the tight credit situation in the U. S. and the unsettled condition of sterling during part of the year. As a result, dollars which might otherwise have moved into foreign official reserves remained in private hands.

On trade account, our surpluses declined by a little more than $1 billion in 1965 to about $3.7 billion last year. The trade results are shown in Chart 18. As you will notice, our exports continued to rise strongly -- by more than 11 percent. But, imports rose by almost 19 percent primarily because of the faster pace of the economy and rising military orders. The growth in imports is expected to taper off this year. In fact, imports showed practically no change between the third and fourth quarters of last year.

An improving trade balance will be very important in the advance toward equilibrium. Therefore, we are stressing the need for an early return to cost-price stability. As I have indicated earlier in my remarks, the price record in the past 18 months was a very good one, judged by previous standards. Now, the President's over-all fiscal and financial program is designed to keep the economy moving ahead steadily and safely while we make a prompt return to relative stability in our costs and prices.

Much is made of the U. S. balance of payments deficits, and properly so because they are a real threat to the position of the United States as the world banker and the dollar as the leading reserve currency because of the lessening liquidity in our position. But, there is another side to this story which reflects the continued growth in our international financial strength. The fact is that while foreigners have been increasing their assets and investments in the United States, our own businessmen and to a much lesser extent, our government financial arms, have been increasing United States assets and investments abroad at a much higher rate. Chart 19, for example, shows that in 1961, the United States position abroad rose $3.5 billion while foreigners position here rose only $2.2 billion. In 1962, the United States position jumped $5.3 billion while foreigners dropped six tenths of a billion. This situation has been maintained throughout the period of the '60's. At the end of 1965 United States assets and investments abroad totaled $106.1 billion whereas foreign assets and investments in the United States added up to only $58.9 billion.

In 1961 our assets and investments abroad totaled $75.0 billion and foreign assets and investments in the United States totaled $46.9 billion. Thus between 1961 and 1965 United States assets and investments abroad rose $31.1 billion while foreign assets and investments in the United States grew only $12 billion.

Since the dollar is vital in its use as a worldwide reserve currency, it is important that we constantly strive to bring our balance of payments into equilibrium. Nevertheless, the United States has continued in a very strong worldwide financial position as indicated in the Chart.

Mr. Chairman, this completes my statement. Thank you very much.

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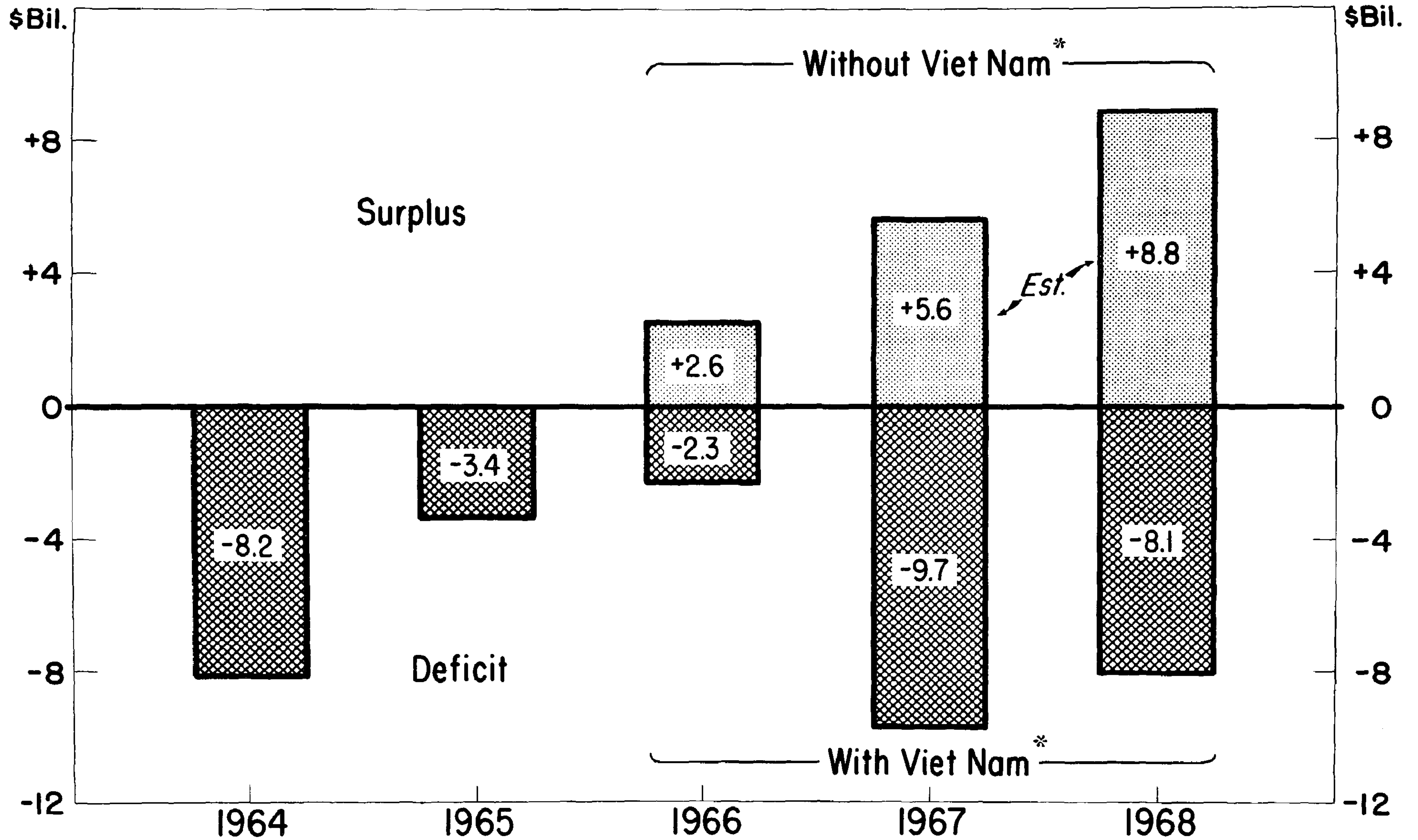
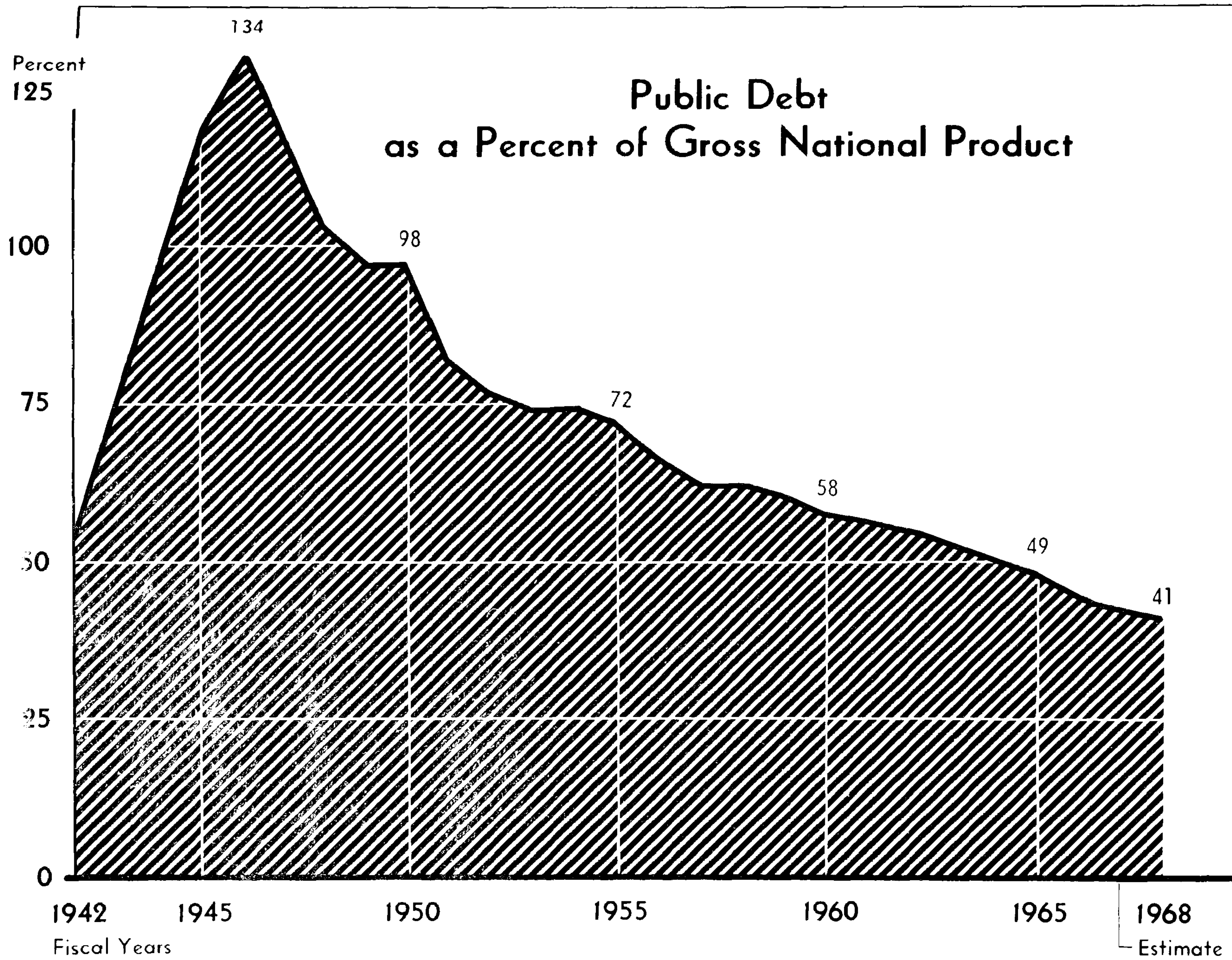
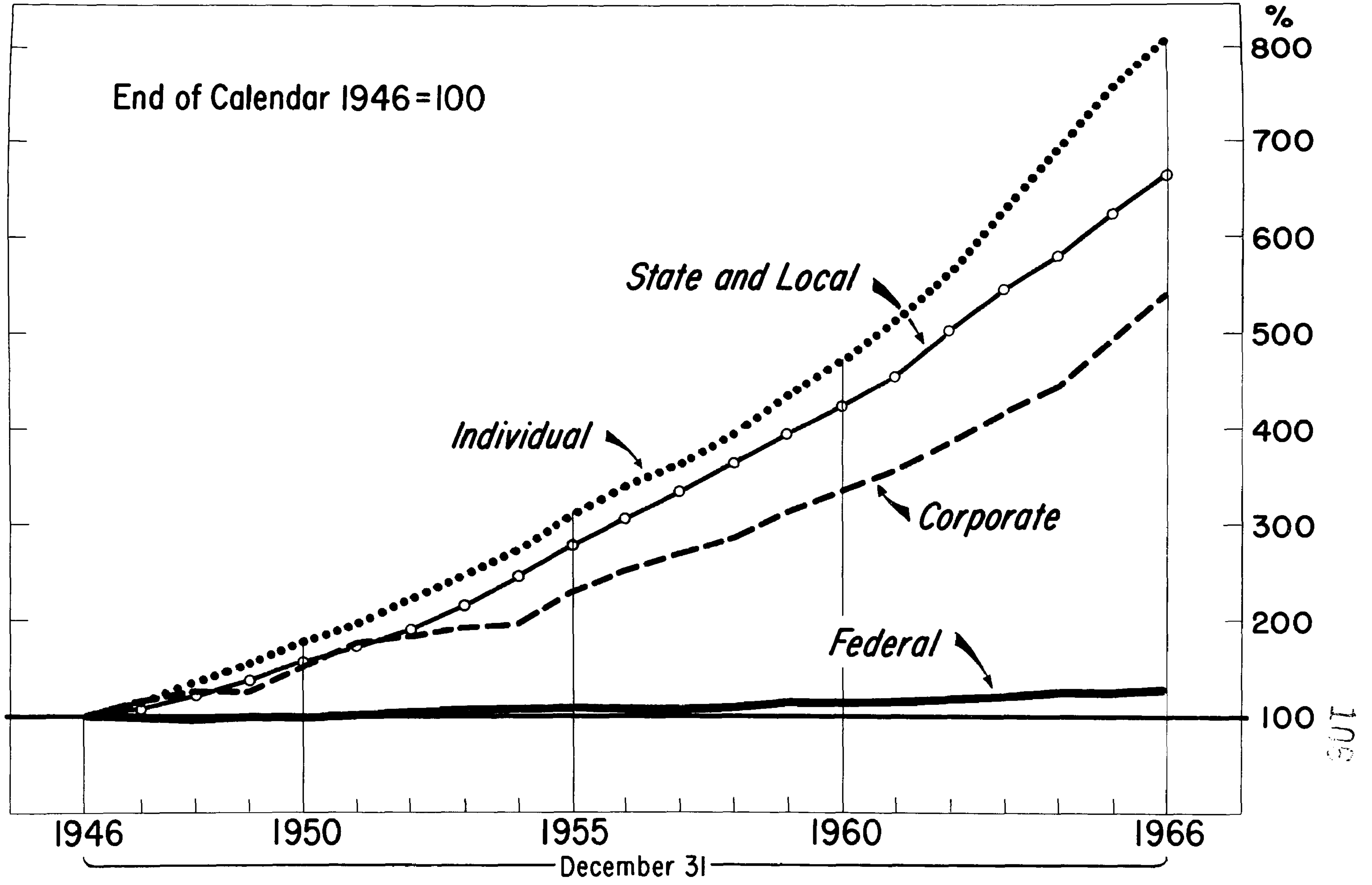
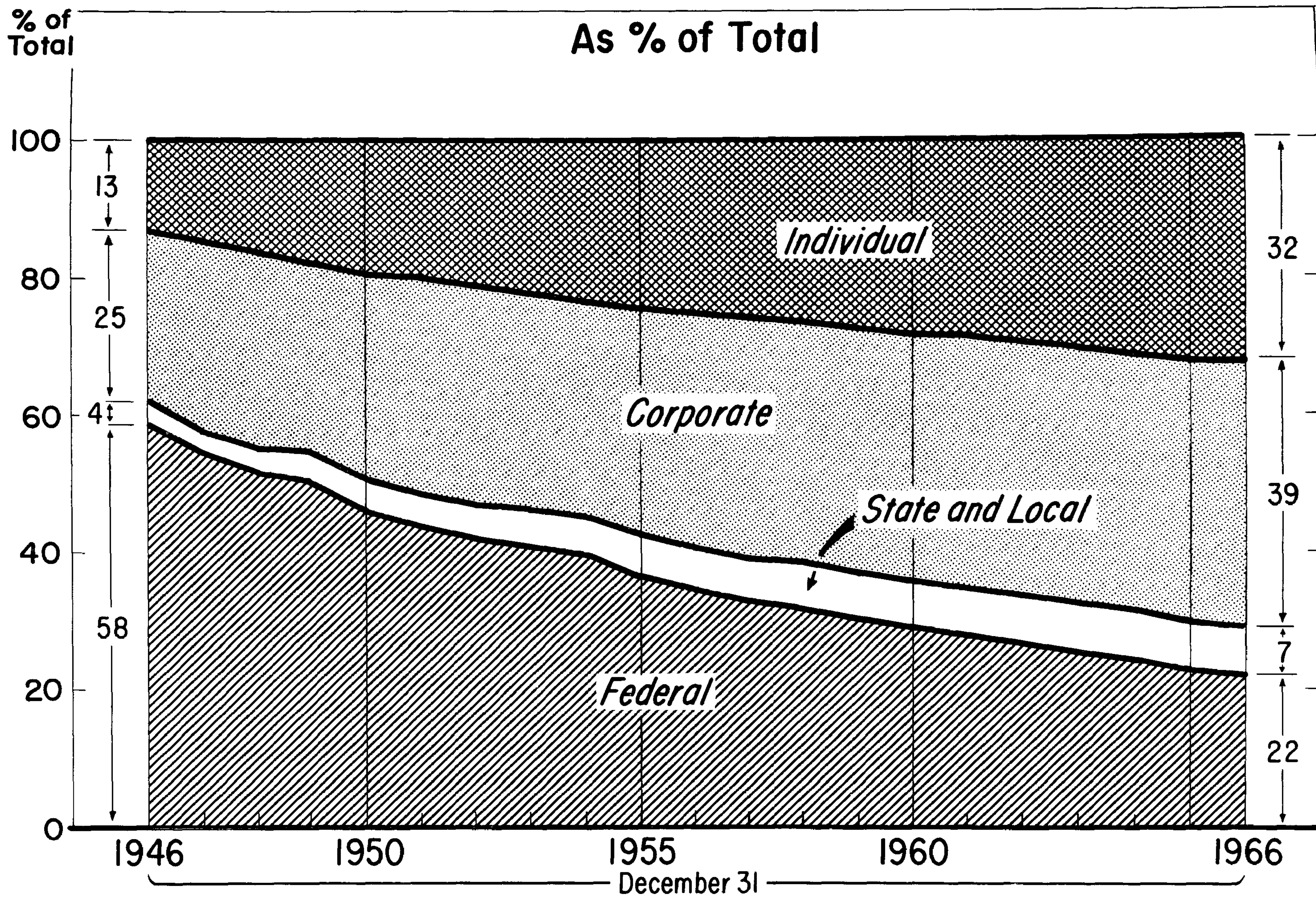
With and Without Viet Nam Programs



*Includes both tax and expenditure programs.

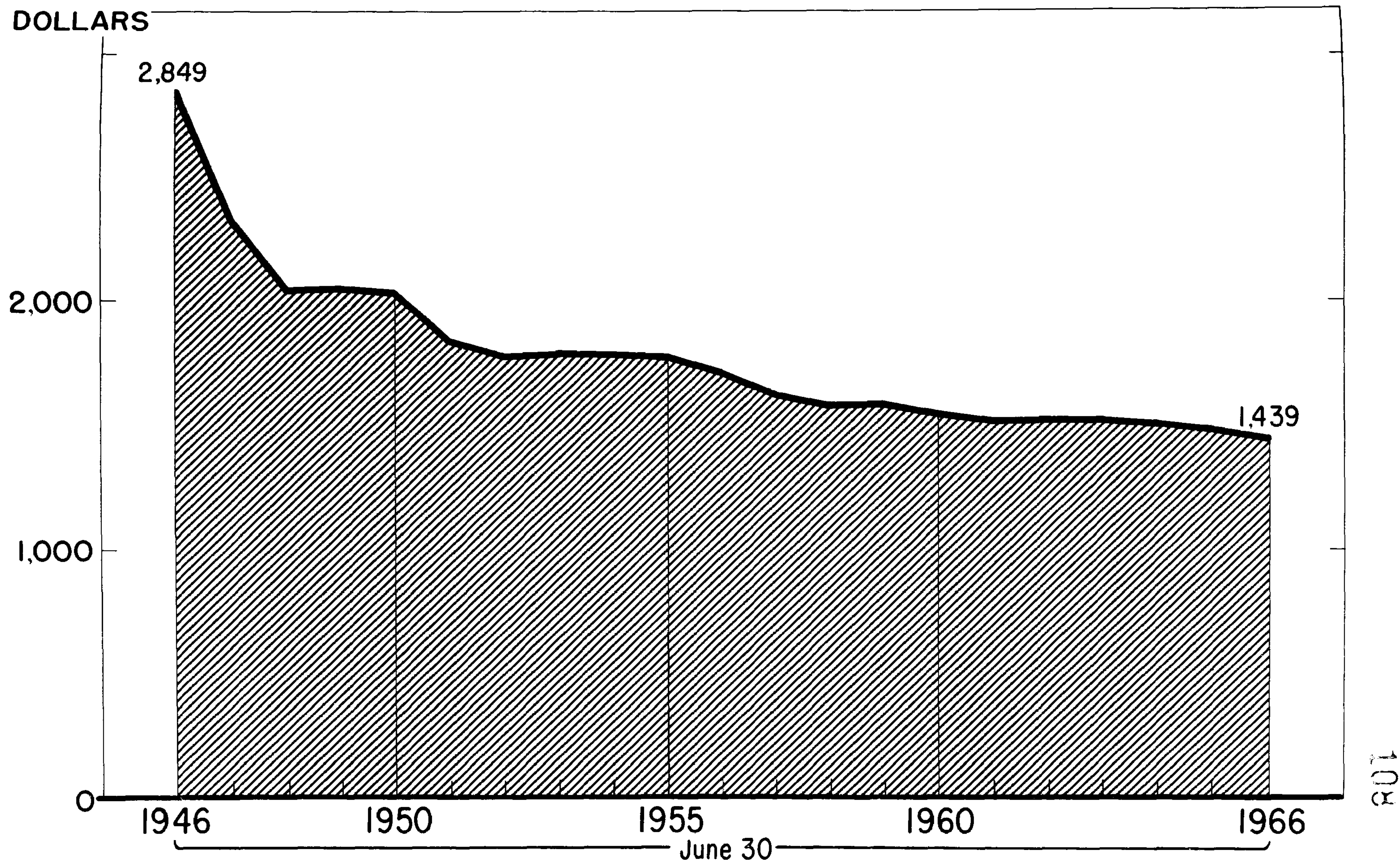

Public Debt
as a Percent of Gross National Product
Percent
125
100
75
50
25
0
134
98
72
58
49
41
1942
1945
1950
1955
1960
1965
1968
Fiscal Years
Estimate


End of Calendar 1946=100
%
800
700
600
500
400
300
200
100
State and Local
Individual
Corporate
Federal
1946
1950
1955
1960
1966
December 31



Office of the Secretary of the Treasury

B-1534



Office of the Secretary of the Treasury

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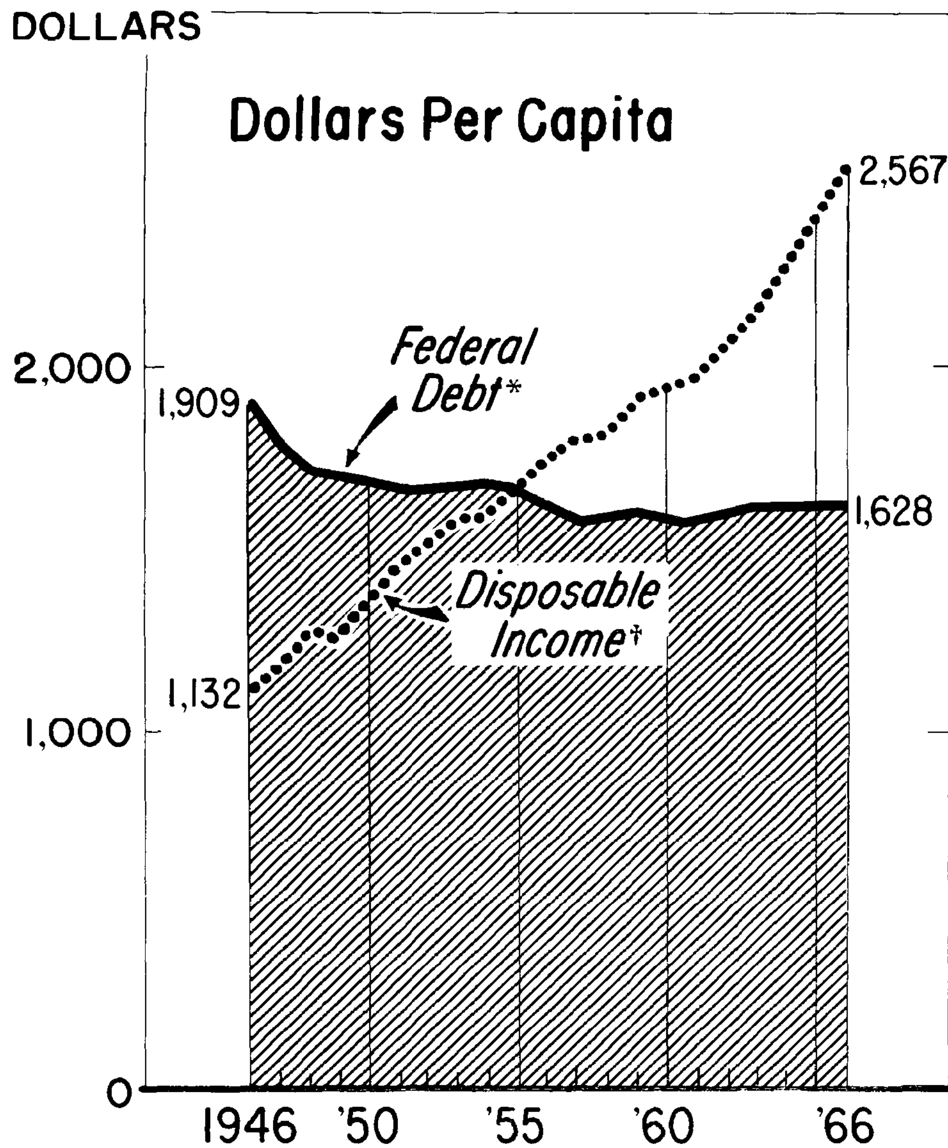
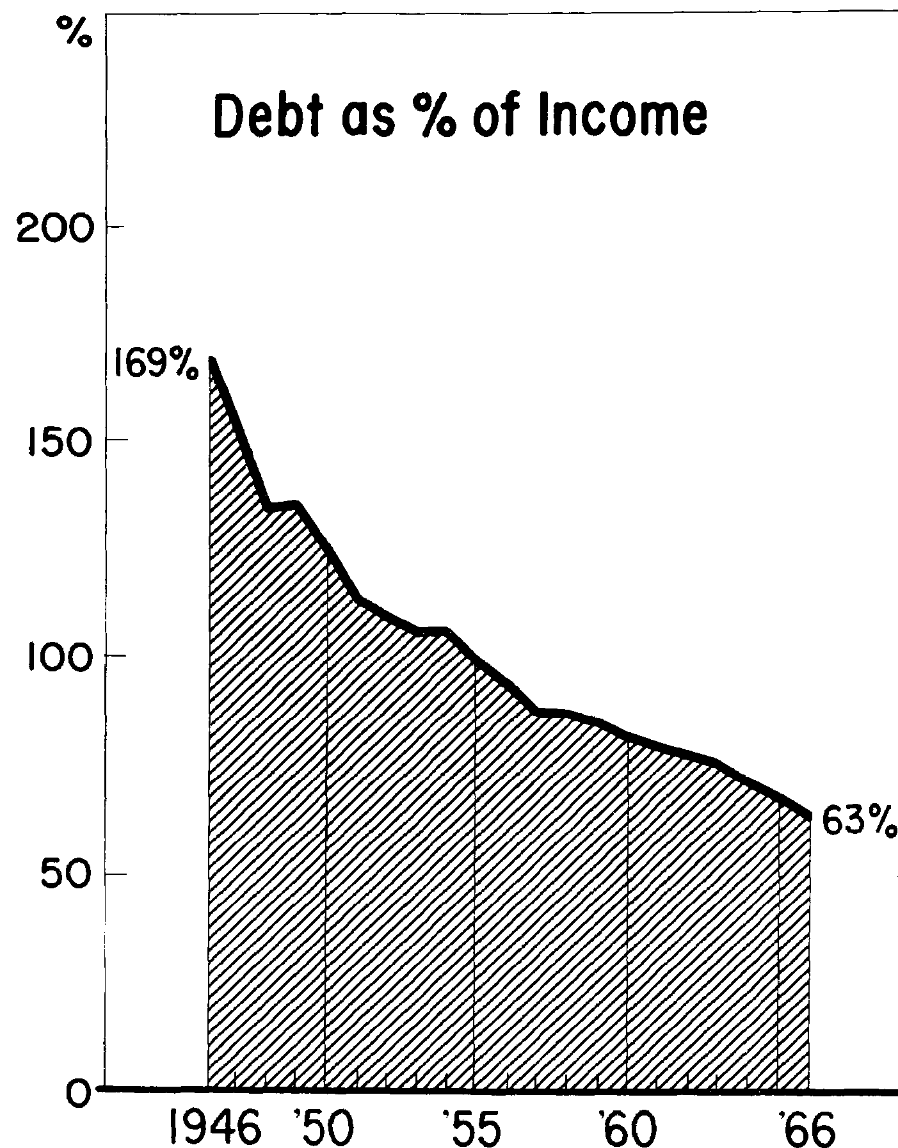
108

PER CAPITA FEDERAL DEBT AND DISPOSABLE PERSONAL INCOME

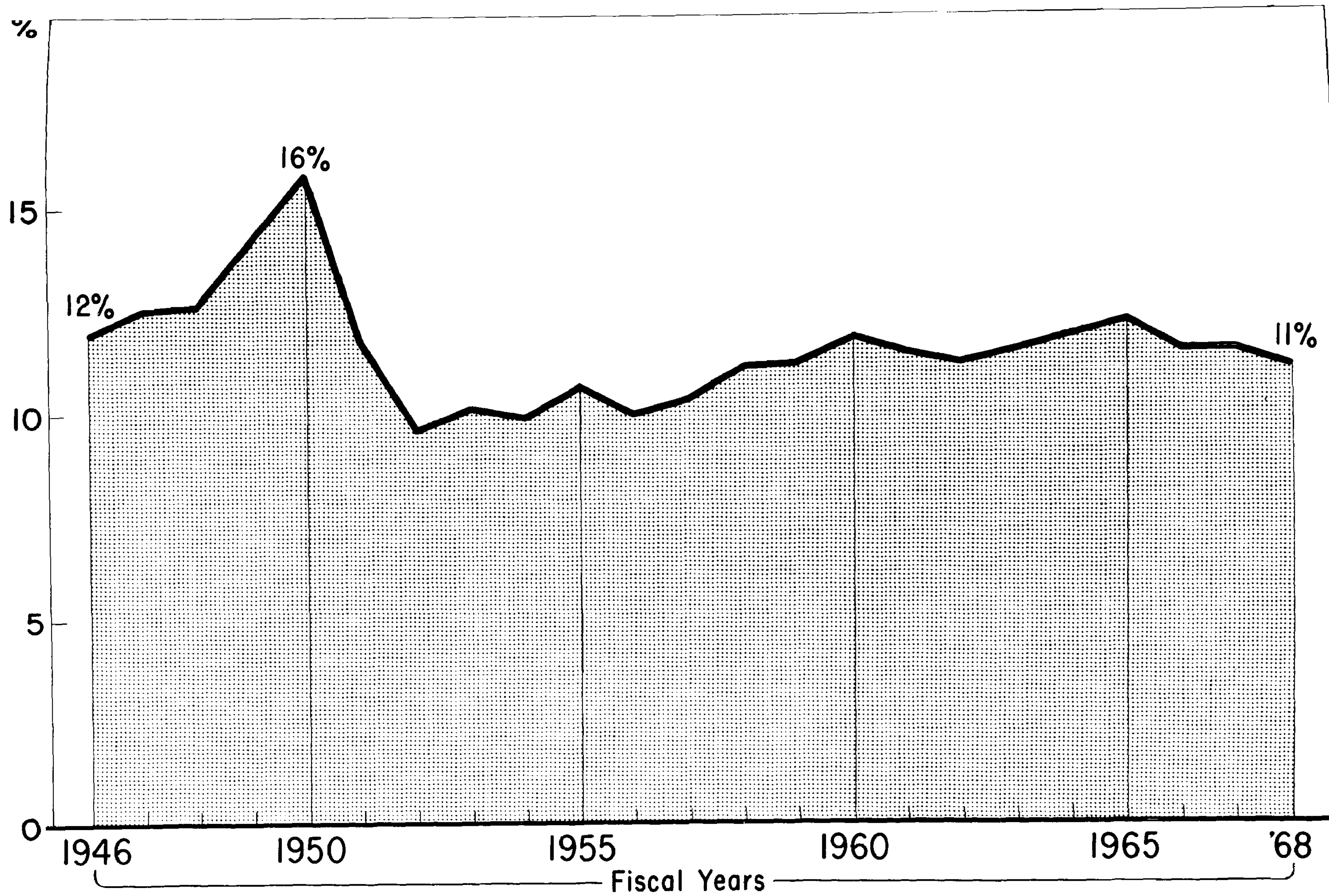




*June 30, each year. †Calendar years.

Office of the Secretary of the Treasury

B-1532



Note: 1967 and '68 estimated

Chart 8

Estimated Effect on Fiscal Year Receipts (Administrative Budget) of Tax Changes Since 1962

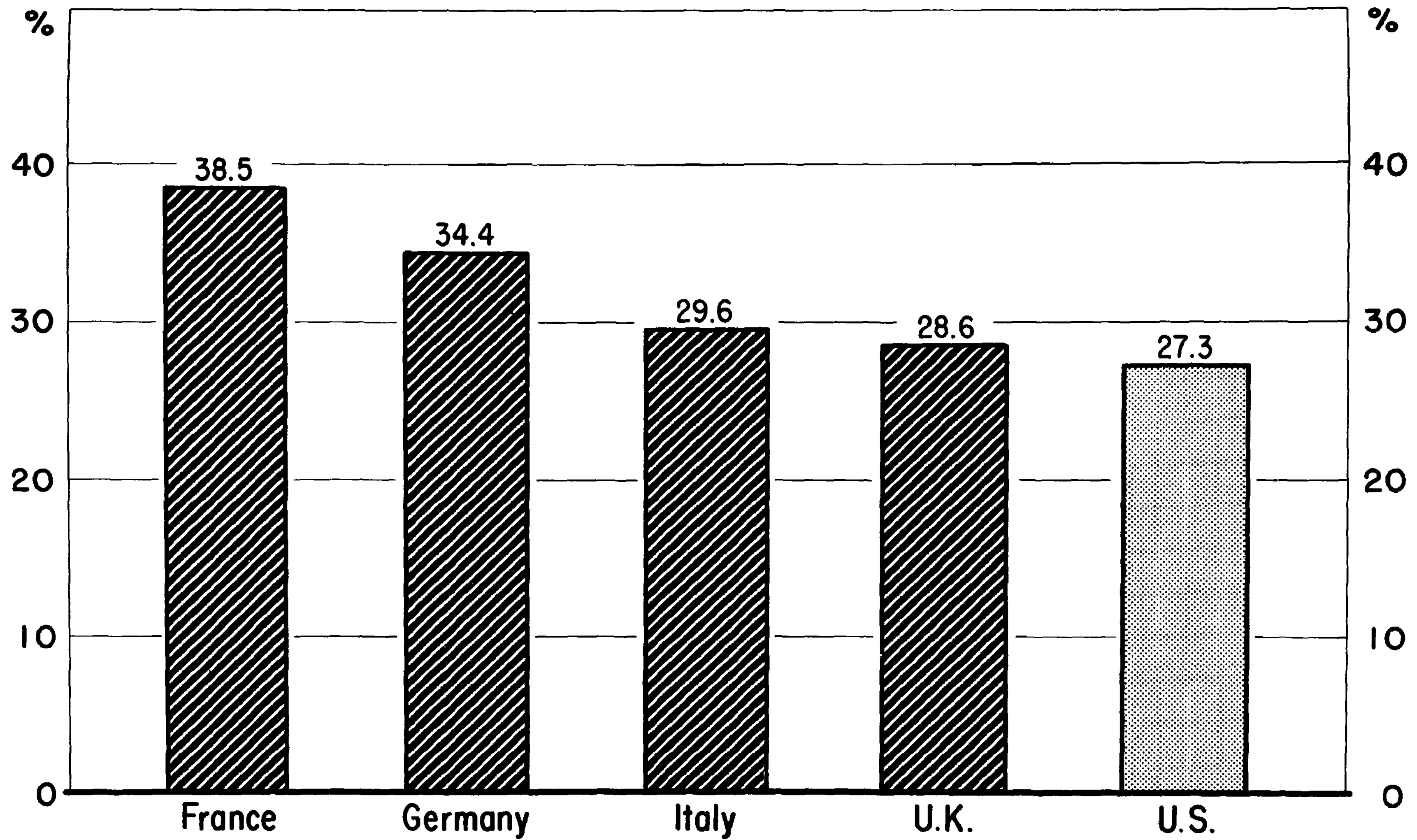
($ billions)

	Fiscal years					
	1963	1964	1965	1966	1967	1968
Revenue Act of 1962:						
Investment tax credit	- 1.1	- 1.4	- 1.6	- 1.9	- 2.1 1/	- 1.3 1/
Other provisions		+ 0.8	+ 0.8	+ 0.8	+ 0.8	+ 0.8
Depreciation guidelines of 1962	- 1.3	- 1.4	- 1.5	- 1.6	- 1.7	- 1.8
Revenue Act of 1964:						
Individuals		- 2.4	- 8.7	-12.4	-14.1	-15.5
Corporations			- 1.5	- 2.9	- 3.2	- 3.2
Acceleration of corporate payments		+ 0.3	+ 1.0	+ 2.0	+ 2.0	+ 2.2
Revenue Act of 1965: Excise reduction				- 2.2	- 3.7	- 4.1
Tax Adjustment Act of 1966						
Graduated withholding and increase declaration 70 to 80 percent				+ 0.1	+ 0.4	- 0.2
Acceleration of corporate payments				+ 1.0	+ 3.0	- 1.3
Excise tax increases				+ 0.1	+ 1.2	+ 1.5
Total, enacted to date	- 2.4	- 4.1	-11.5	-17.0	-17.4	-22.9
Proposed Legislation						
Individual					--	+ 3.4
Corporation					+ 0.2	+ 2.1
Excises					--	- 0.4
Total, enacted and proposed	- 2.4	- 4.1	-11.5	-17.0	-17.2	-17.8

Office of the Secretary of the Treasury, Office of Tax Analysis — February 3, 1967

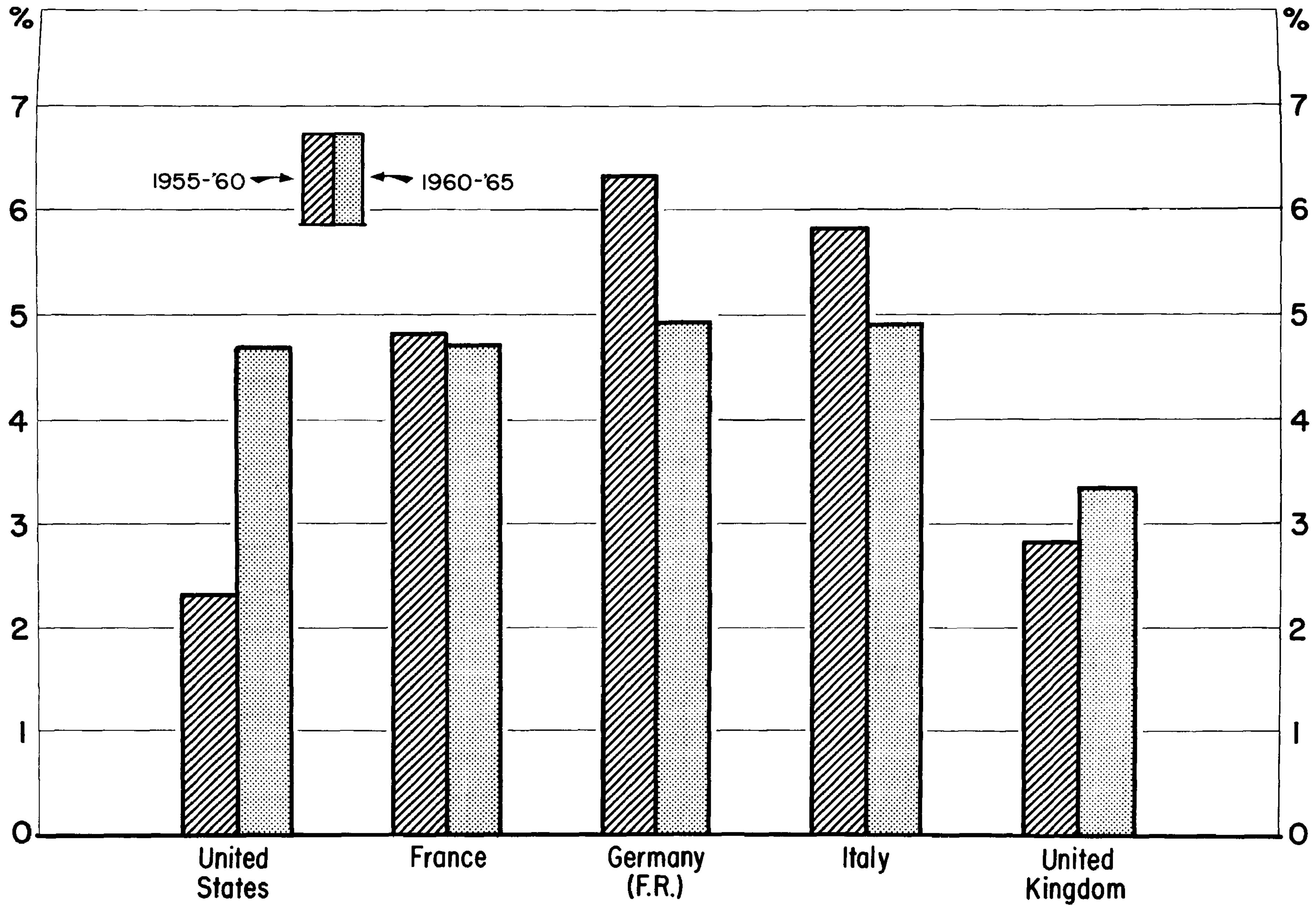
Note: This table is presented only for historical background. Although figures for any one year are believed to be reasonably accurate approximations, with possibility of duplication, they cannot be used for estimates of year-to-year changes.

1/ Including effect of Investment Credit Suspension Act of 1966.

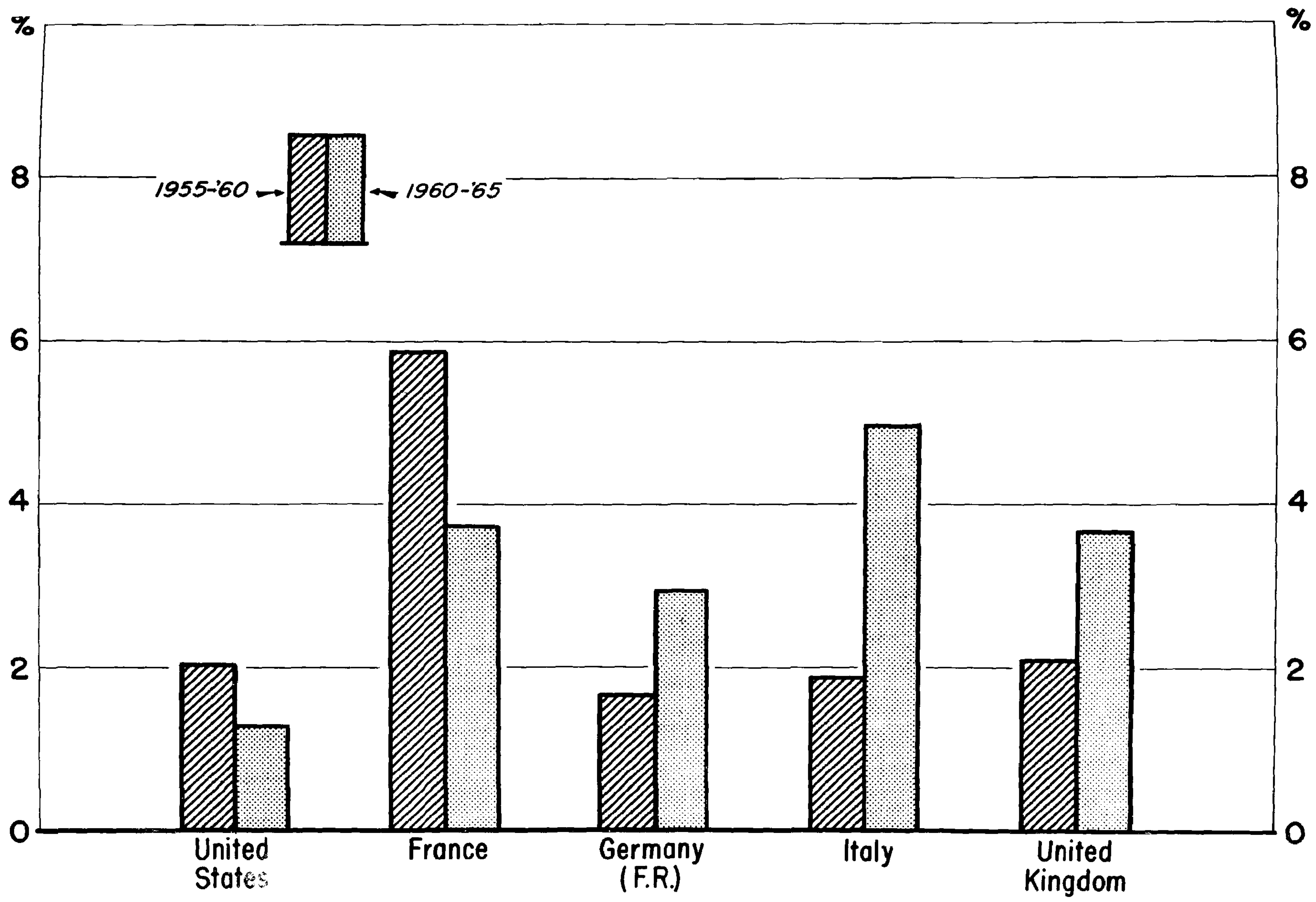


Office of the Secretary of the Treasury

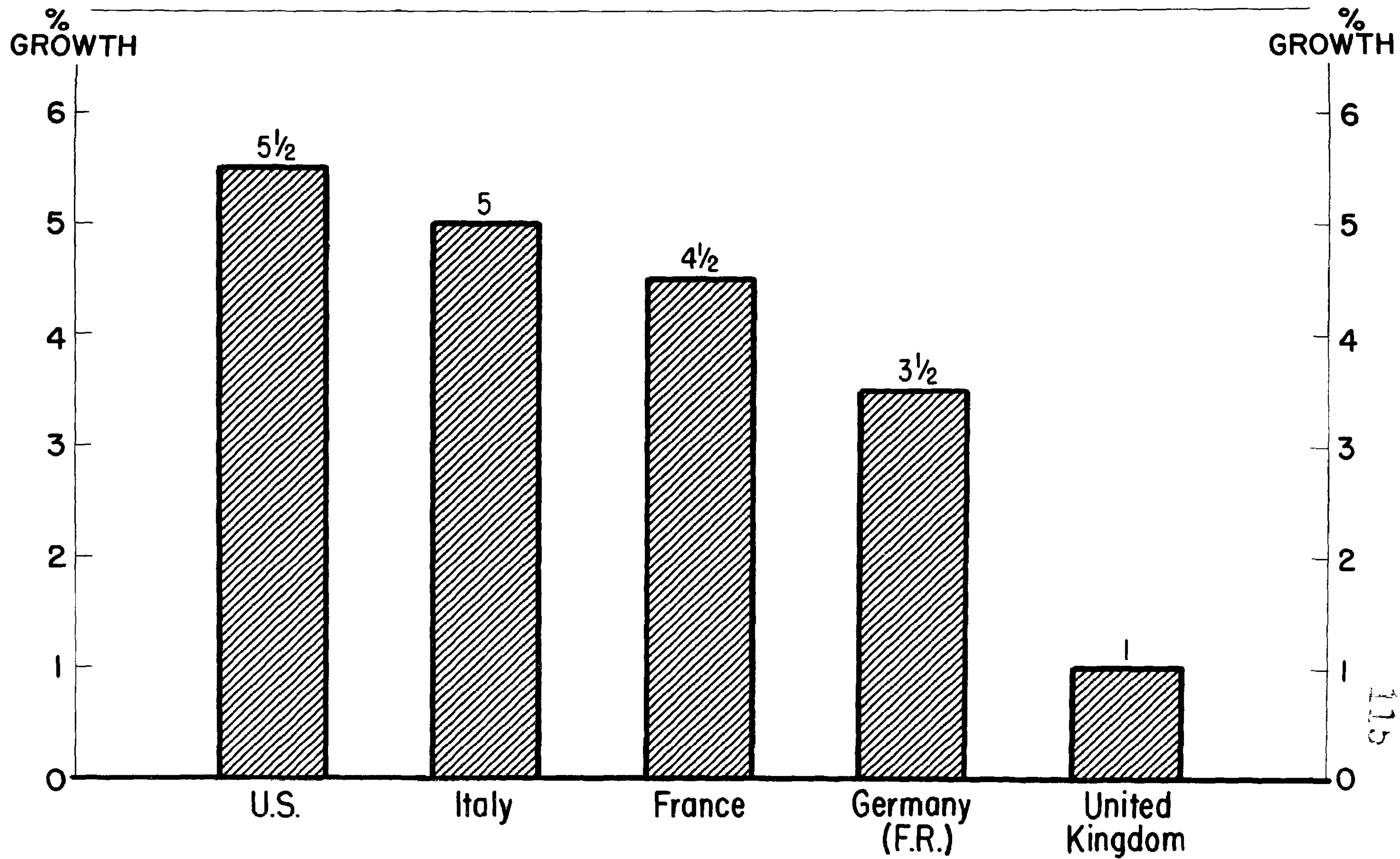
FO-422



*Real GNP at market prices.



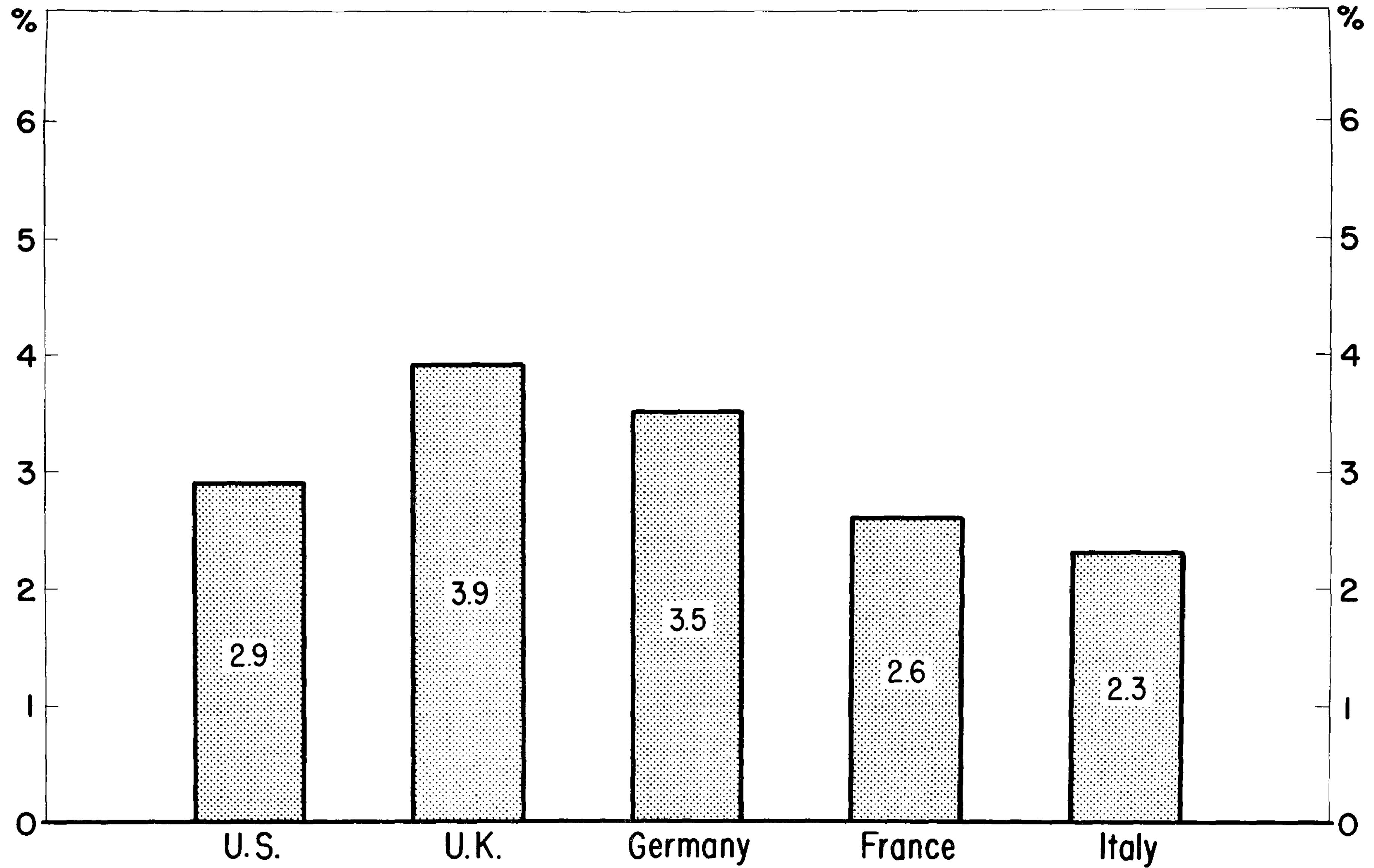
Source: OECD and Economic Report of the President.



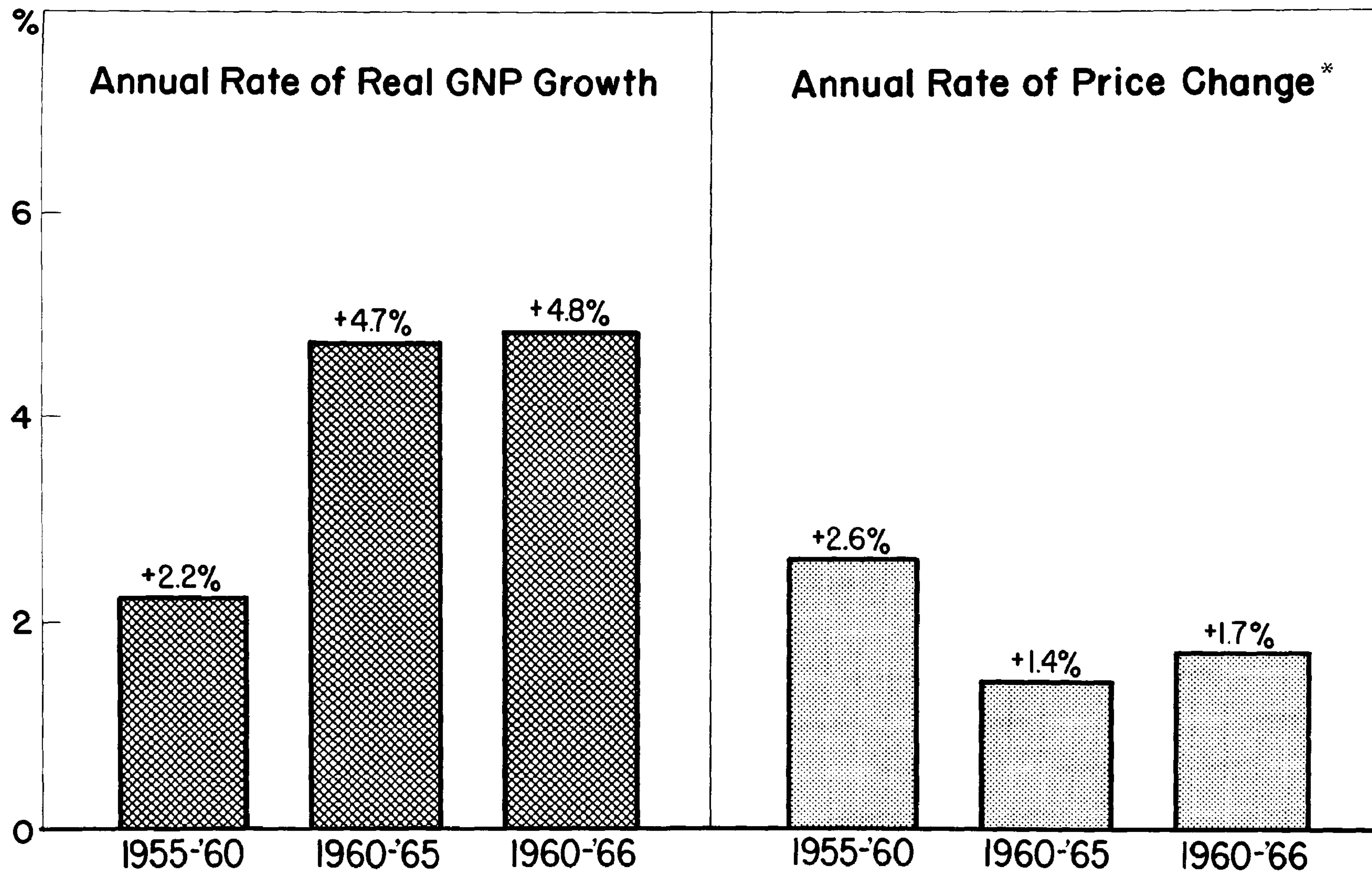
Office of the Secretary of the Treasury

FO-420

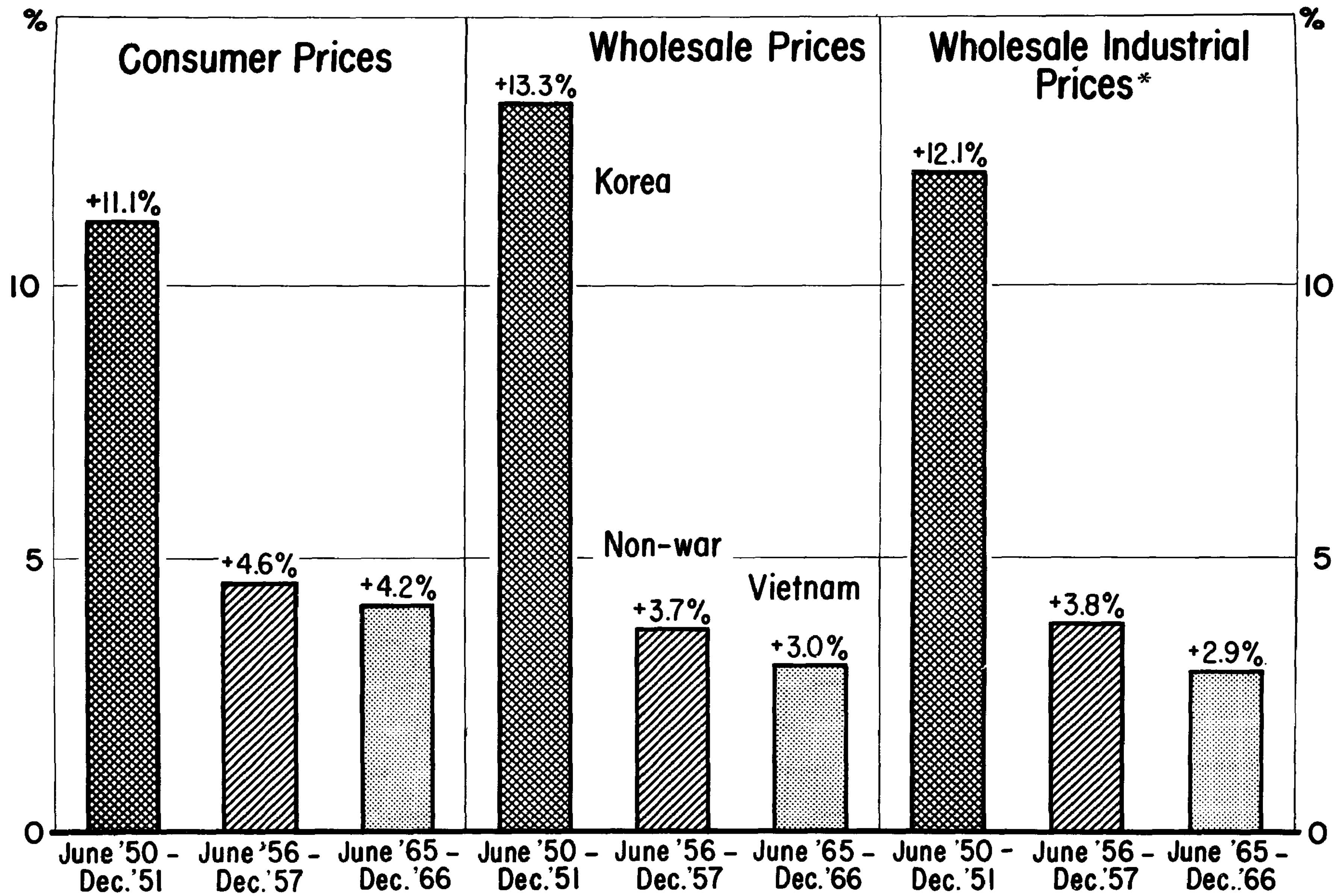
1965 to 1966



GNP GROWTH AND PRICE COMPARISONS
1955-'60, 1960-'65 and 1960-'66

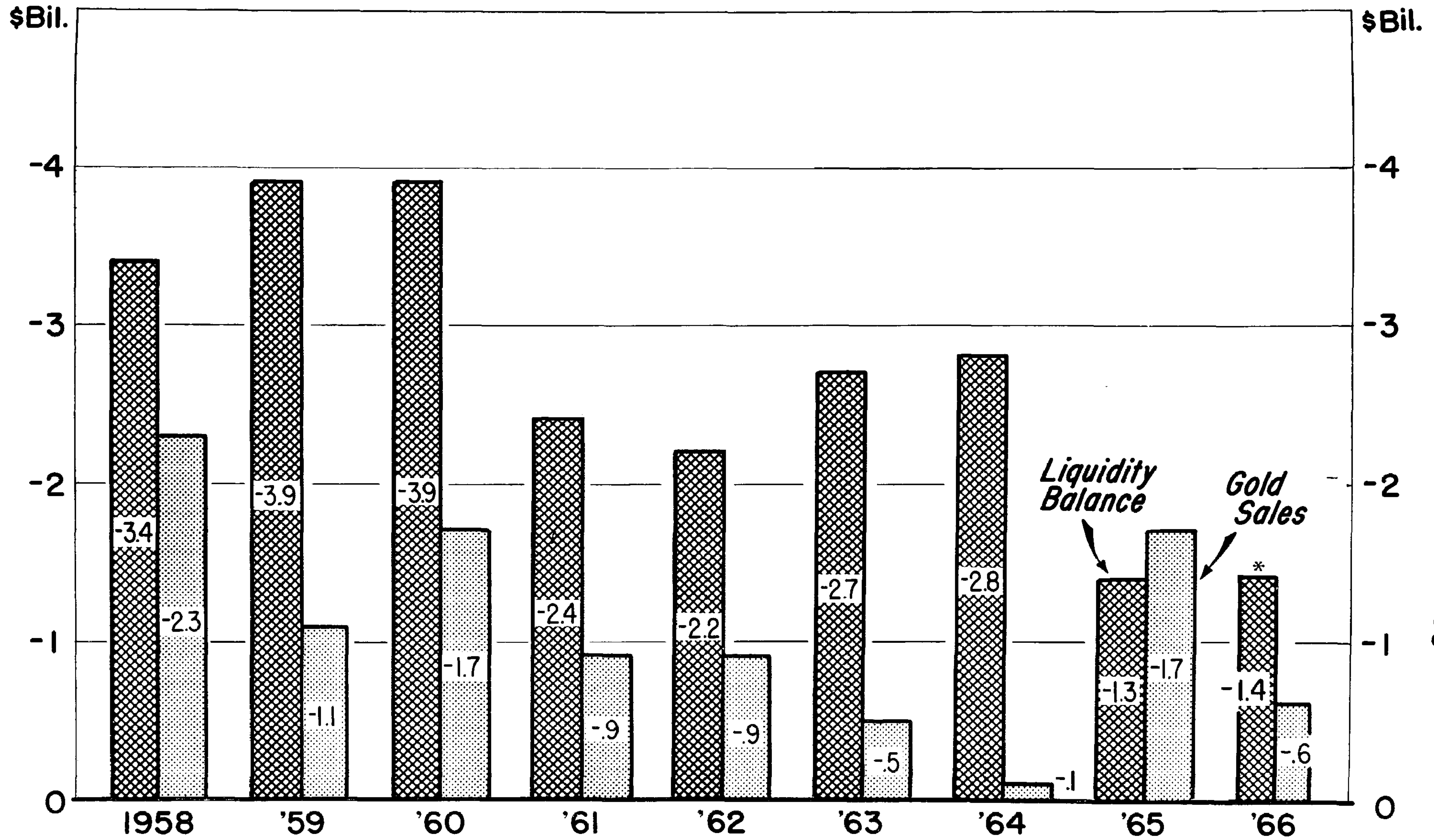


*GNP Price Deflator.



All commodities other than farm and processed foods.

AND GOLD SALES



*Prelimnary estimate.

Office of the Secretary of the Treasury

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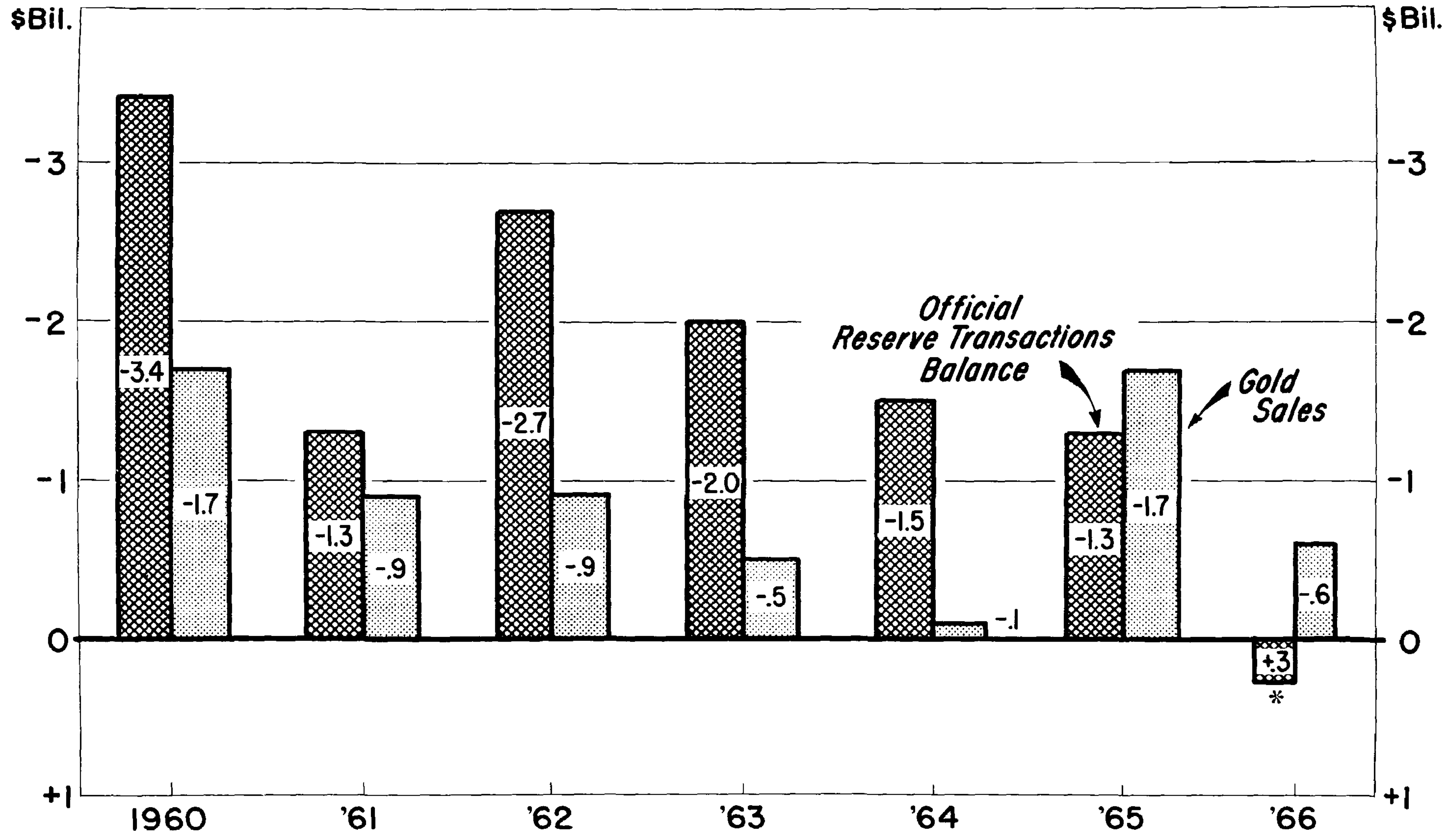
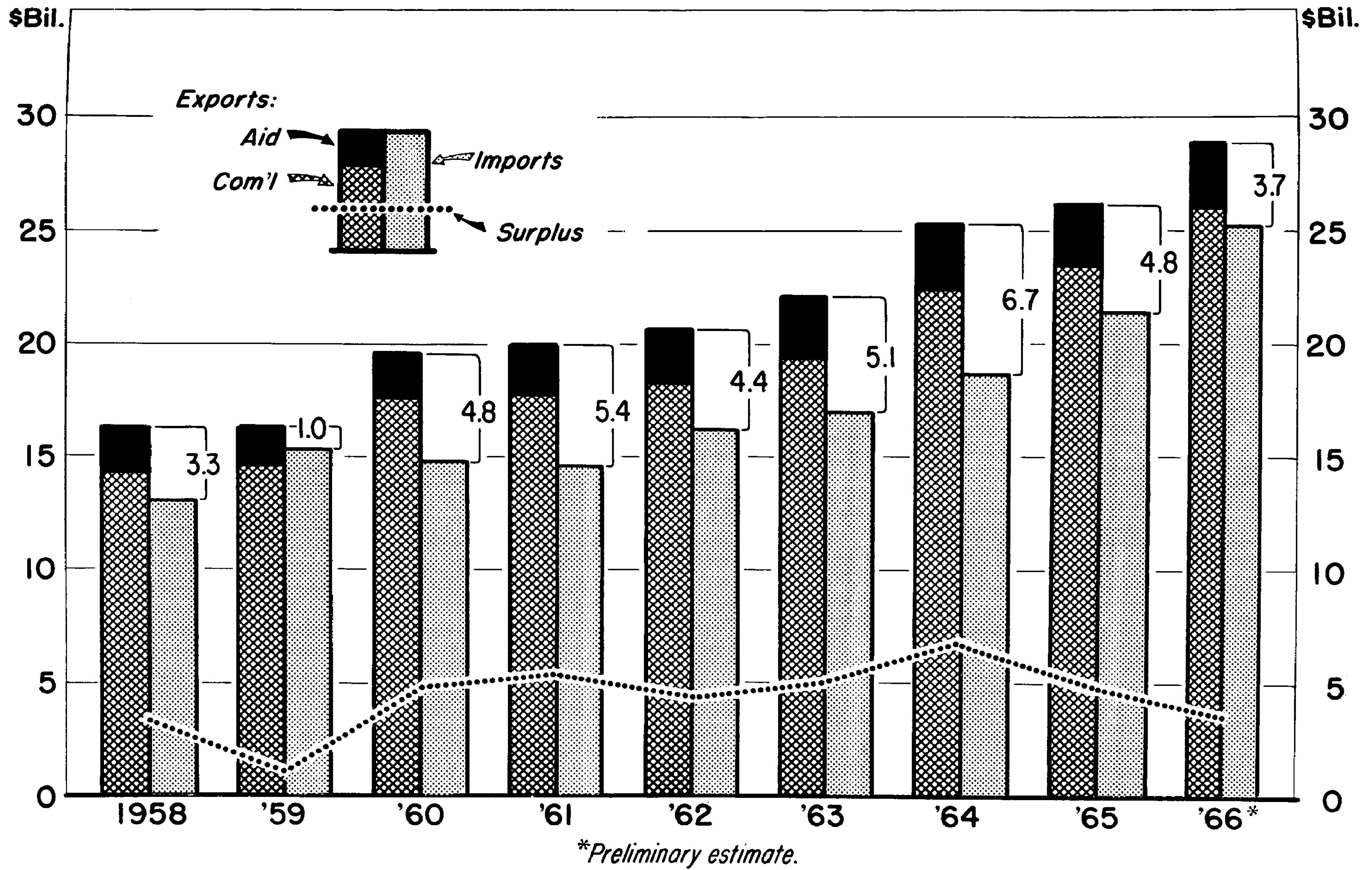
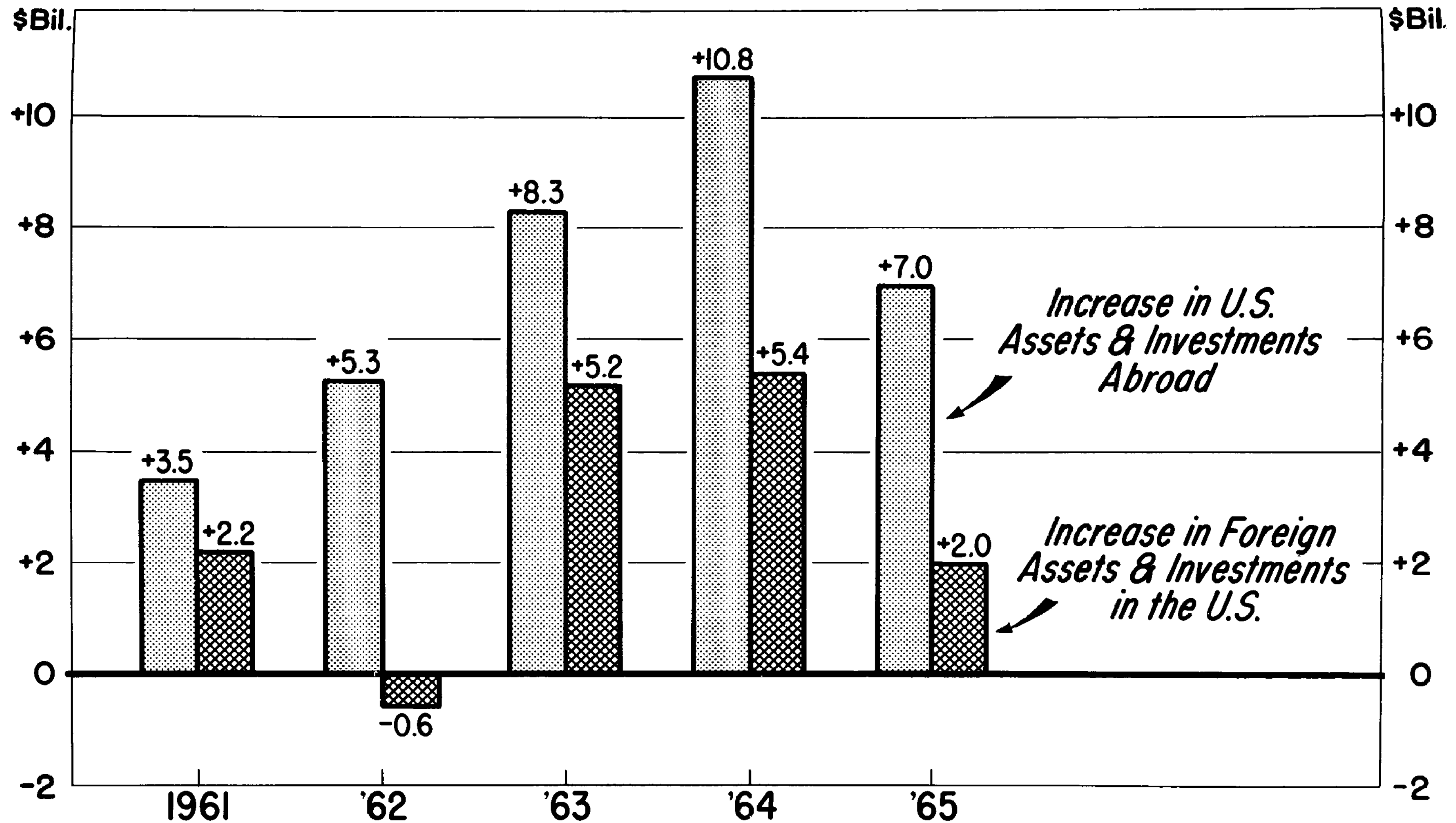
TRANSACTIONS BASIS" AND GOLD SALES



*Preliminary estimate.


$Bil.
$Bil.
Exports:
Aid
Com'l
Imports
Surplus
30
25
20
15
10
5
0
3.3
1.0
4.8
5.4
4.4
5.1
6.7
4.8
3.7
1958
'59
'60
'61
'62
'63
'64
'65
'66*
*Preliminary estimate.



Memo: At end of 1965: U.S. assets and investments abroad total $106.1 billion.
Foreign assets and investments in U.S. total $58.9 billion.

Source: Department of Commerce.

TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
ON H. R. 6950
TUESDAY, MARCH 14, 1967, 10 A.M. EST

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss the recommendation for reinstating the 7 percent investment credit and accelerated depreciation presented in the President's Message of March 9, 1967 and to express the Treasury's views on the bill before you, H. R. 6950.

I also want to thank the Committee for the promptness with which it arranged to hold these hearings. Once again the Congress is demonstrating its ability to act speedily and responsibly to meet the requirements of sound economic policy.

I favor the immediate restoration of the investment credit and accelerated depreciation. As members of this Committee are well aware, I have always been a strong exponent of the investment credit. Since its inception in 1962, the credit has unquestionably made a substantial contribution to promoting high levels of investment and economic growth, and to the generally remarkable performance of our economy in recent years.

It is an essential, and should be an enduring, part of our tax system.

As members of this Committee also know, I came to the decision last September that suspension was an appropriate measure only after very careful consideration. I made clear in my testimony before this Committee, and elsewhere, that I regarded the suspension bill as a temporary measure. The suspension legislation itself emphasized the temporary nature of the suspension by providing for automatic restoration of the credit and accelerated depreciation on January 1, 1968. However, it was never my view that the January 1 date was in any way binding or immutable as a termination date. Rather, it was my full expectation that the suspension period would actually be terminated whenever economic, or other conditions made such action appropriate. As I stated before this Committee in answer to a question from Congresswoman Griffiths:

> "I think the expression of the date /i.e., Jan. 1, 1968/ is really an expression of the intent and purpose of both the President and the Congress to renew the credit when the economic circumstances and surroundings are more propitious. I don't think there is anything magic about the January 1, 1968, date or the 16 months' period. It is simply a planning period."

This view that it would be desirable, indeed obligatory, to reinstate the credit as soon as conditions warrant it, was expressed both by the President and the Congress. In his signing statement the President said:

> "If . . . any earlier reinstatement would be appropriate, I shall recommend prompt legislative action to accomplish that result."

The reports to the Congress of both the House Ways and Means Committee and the Senate Finance Committee stated:

> "If military requirements in southeast Asia should decrease before January 1, 1968, or if for some other reason it should become apparent that suspension of the investment credit and suspension of the use of the accelerated depreciation methods with respect to buildings are no longer necessary to restrain inflation, the Congress can promptly terminate the suspensions. The Administration has also indicated that it would recommend terminating the suspension period before January 1, 1968, under such conditions."

In brief, the Administration and the Congress fully intended that the suspension of these important investment incentives should be terminated just as soon as the objectives of the suspension had been accomplished. Their objectives have been accomplished and therefore the incentives should be restored.

The Aim and Purpose of the Suspension

In my statement before you last September, I emphasized that the suspension of the investment credit was not a revenue measure. It was an economic measure, with a limited, well defined purpose: namely, to relieve the excessive pressures that were clearly observable in the capital goods sector, which in turn were causing strains in the financial and money markets and the highest interest rates in 40 years, and depriving the homebuilding industry of needed credit availability. The suspension legislation was not intended as an overall, across-the-board, measure of fiscal restraint. Its focal concern was specifically to curb the excessive boom in the market for capital goods. It was to do this by inducing business firms to postpone the placing of orders for -- or starting the construction of -- machinery and equipment, and commercial and industrial building.

Mission of the Suspension Law Accomplished

On the basis of the evidence that we have been observing, analyzing and carefully appraising, we can now state without qualification that the mission assigned to the suspension of the investment credit and accelerated depreciation has been accomplished.

In the market for capital goods:

-- New orders for machinery and equipment have, beginning in October, declined steadily, reaching a level in January of this year of 7 percent below September 1966. Moreover, in January shipments actually exceeded orders 17 percent and this was the first month that backlogs actually fell since June 1963.

-- The average rate at which capacity is being utilized in the machinery industry has dropped noticeably to a healthier and more efficient rate. In electrical machinery, for example, it has declined from 97 percent to 91.5 percent.

-- The shortages of skilled labor are not so nearly acute today as they were last summer.

-- And, looking ahead, the recent Survey of Investment Plans for 1967, conducted by the Department of Commerce and the Securities and Exchange Commission shows a modest increase of less than 4 percent. This is within the growing productive capabilities

of our machinery industries. It is in sharp contrast to the increases of 16 percent and 17 percent which occurred in 1965 and 1966.

Thus, while demand for capital goods remains at a high, even record level, it now reflects a healthy buoyancy in the capital goods industries and not the excessive, threatening, boom conditions that prevailed last summer.

One important result of this favorable development is in the area of our <u>balance of payments</u>. During 1965 and the first three quarters of 1966, imports of capital equipment jumped by an average of 13 percent per quarter. In the fourth quarter of 1966 the rise in imports of capital equipment was only 3.9 percent and this in part reflected deliveries on orders placed in earlier quarters. There is an excellent prospect of a levelling off of imports, now that domestic producers can take care of demands.

<u>In the financial and money markets</u>:

-- A dramatic decline in interest rates from the highest levels in 40 years has occurred.

--- Three-month Treasury bills are down one and one-quarter percentage points, from 5.60 percent to 4.35 percent.

--- Ten-year Treasury securities are down about seven-eighths of a percentage point.

--- Short-term Federal agency securities are down one and three-eighths percentage points.

--- New corporate Aa bonds are down nearly seven-eighths of a point.

--- New municipal bonds are down two-thirds of a point.

-- The net inflow of funds to savings and loan institutions is now proceeding at a much more healthy rate. In the four months ending January, the inflow was at an annual rate of $8 billion. Last summer the annual rate of inflow was as little as $0.1 billion.

-- Credit availability for homebuilding has improved and mortgage rates have started to come down. In October the seasonally adjusted annual rate of housing starts had sunk to a low of 848 thousand units; in January starts had reached one and a quarter million units (seasonally adjusted, annual rates).

-- Corporate financial demands, while strong, are being accommodated in an orderly manner and yields are down.

--- Preliminary estimates suggest that for the first quarter of this year corporate issues are running below last year. This contrasts with the first three quarters of 1966 when corporate security offerings were substantially above the year earlier levels.

While the situation has considerably improved in our financial and money markets, I do not want to give the impression that further substantial easing is unwanted or unnecessary. Far from it. There is room for further declines in interest rates, in our own financial markets, and in that of other countries. I hope and expect to see those declines realized, and I expect that credit will continue to become more readily available, particularly for homebuilding.

In the currently improved financial market environment, I believe that restoration of the investment credit is entirely consistent with maintaining good balance in the financial markets in the months ahead, and it is consistent with achieving further improvement in those markets. There is the important proviso, however, that the Federal Government's own demands in the credit markets must be kept within measured bounds.

In view, then, of the moderate and sustainable pace at which investment is now proceeding, and in view of the clear trend toward ease in our financial and money markets, continued suspension of the investment credit is no longer appropriate. This valuable incentive to business investment -- and the accelerated methods of depreciation -- should be restored at the earliest possible date.

The bill before you provides for such restoration.

Explanation of the Bill

The suspension statute adopted by Congress last fall generally denies the investment credit for property ordered, acquired, or placed under construction during the suspension period. Similarly, the statute denies use of the forms of accelerated depreciation introduced into the tax law in 1954 -- primarily, the double declining balance and sum of the years-digits methods -- for real property which does not qualify for the investment credit if the construction of the property begins during the suspension period or is ordered during the suspension period. The statute defines the suspension period as the period beginning on October 10, 1966, and ending on December 31, 1967.

Section 1 of H. R. 6950 amends the definition of the term "suspension period" to provide that the period terminates on March 9, 1967, rather than December 31, 1967. As a consequence, property ordered after March 9, property acquired after March 9 (except that acquired pursuant to a suspension period order), and property whose construction is begun after March 9, would qualify for the investment credit or 1954 Code accelerated depreciation under the usual rules governing those tax benefits.

Section 2 of the bill amends both the investment credit and the accelerated depreciation portions of the suspension statute for property whose construction (by a self-builder or self-contractor) is begun during the suspension period, but not completed during that period. Under these amendments, the portion of the basis of the completed property attributable to construction which is performed after the suspension period, and which was not ordered during the suspension period, will qualify for the investment credit or 1954 Code accelerated depreciation, as the case may be.

This section was not included in the President's recommendation for restoration of the investment credit and

accelerated depreciation. It is minor in its impact, and I have no serious objection to its inclusion, if it is not to become the basis for exceptions to the operation of the suspension and its termination on the terms provided in the legislation enacted last year. If, however, it should become a basis for exceptions, I would, then, urge its removal.

The general effect of the bill, then, is to restore the investment credit and accelerated depreciation for property ordered, acquired, or constructed after March 9, 1967.

Relation to the Surcharge

The question naturally arises as to what bearing the termination of the suspension has on the President's recommendation for a surcharge on corporate and individual income taxes.

The two measures, however, are essentially quite different in design and purpose.

As I have already indicated the suspension of the investment credit was not a revenue measure and had a specific and limited objective -- to dampen the excessive boom in the market for capital goods. The excessive boom is over, and there is no reason for continuing the suspension.

The surcharge, on the other hand, is an overall across-the-board fiscal measure designed to cope with the economic and budgetary situation as we anticipate it for the latter half of 1967 and throughout 1968. We expect the economy to be in need of overall restraint during that period. We will certainly not want a resumption of monetary strains then either, and this will require that the Government's own demands on the credit markets be kept in bounds. The surcharge will help achieve both these major objectives.

Conclusion

In conclusion let me emphasize the need for prompt, favorable action on H. R. 6950. Delay will only do harm to the economy, and the more delay the more the harm. Also, let me advise strongly against any exception to the terms provided in the bill for the termination of the suspension. To make exceptions would be a serious breach of equity and impair the good faith of the Congress and the Executive Branch of the Government.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

IMMEDIATE RELEASE

March 14,1967

INCOME TAX TREATY WITH BRAZIL SIGNED

The Treasury Department today announced the signing of an income treaty between Brazil and the United States. It is the first ome tax convention between this country and a South American ntry.

The treaty, signed March 13 in Rio de Janeiro, is expected to sent shortly to the Senate. If ratified this year, it will take ect January 1, 1968.

It is anticipated that negotiations with several other South rican countries will be undertaken in the course of the year.

Provisions of the treaty include:

-- Allowance of a 7 percent investment tax credit for investment in machinery and equipment in Brazil by United States firms. The credit is modeled after the investment tax credit applicable under the United States Internal Revenue Code.

-- The investment tax credit would be allowed under the same conditions as those applicable to the domestic investment tax credit. Consequently, this aspect of the treaty would apply only when the domestic credit is operative in the United States.

-- The treaty limits Brazilian withholding tax to 20 percent on dividends flowing to the United States from direct investment in Brazil.

-- The Brazilian withholding tax on interest paid to financial institutions in the United States and on royalties paid to United States licensors is limited to 15 percent.

In general, other provisions of the treaty parallel provisions in ne tax conventions between the United States and European countries.

Details of the agreement will be made public when the treaty is to the Senate for advice and consent to ratification.

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FOR USE IN AFTERNOON NEWSPAPERS OF
THURSDAY, MARCH 16, 1967

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE A
LUNCHEON MEETING OF THE NORTHERN CALIFORNIA
INDUSTRIAL PAYROLL SAVINGS COMMITTEE
AT
THE ST. FRANCIS HOTEL, SAN FRANCISCO, CALIFORNIA
THURSDAY, MARCH 16, 1967, 12:30 P.M., P.S.T.

Buying and holding U. S. Savings Bonds are actions more important to our nation's economic stability today than ever before. These bonds not only support our fighting men in Vietnam and our commitment to the defense of freedom throughout the world, but they strengthen our economy at home and guard against the forces of inflation.

In the days and months to come, all of us -- in government, in banking and finance, in industry and commerce -- must share an extra burden of responsibility in maintaining a steady economic footing while we continue to move ahead.

Now, more than ever before, it is essential that we finance our debt in the soundest possible way; that we do all we can to place more of the debt in the hands of savers. You well know that participation in the Savings Bonds program is a measurable and effective means of accomplishing both these objectives, because you -- as Savings Bond volunteers in Northern California -- have done an outstanding and admirable sales job. The following few statistics speak loudly of your accomplishments:

In 1966 your sales dollar goal was $136,600,000. You passed this and went on to $148,252,000, making 108.5 percent of your quota. You set your sights on a target of 35,700 new savers for the same year, but you nearly doubled it --

adding 73,704 new savers for a whopping 206 percent of your goal. You have every right and reason to be proud of this accomplishment. I can tell you that your Government is proud of it.

But I must also remind you that more is needed, and will have to be accomplished. Your coming sales battle will be tough.

You are challenged by a 1967 sales goal of $244,600,000 and a quota of 136,500 new payroll savers. But remember: While you knock on doors, thousands of our valiant men will be wading through rice paddies and slugging it out with an elusive enemy in the jungles of Vietnam.

We are giving you what we feel certain is a valuable assist in meeting this challenge: a new, attractive product. This is the "Freedom Shares," sales of which begin May 1. We have an unmatched sales organization -- all volunteers -- to put this Savings Note and the familiar Savings Bonds into the financial backstops of our Payroll and Bond-A-Month savers.

Let me mention just a few:

Mr. George Meany and the Executive Council of the AFL/CIO have enthusiastically endorsed our new "Freedom Shares" product. They are actively engaged in an expanded program to promote the campaign. Other volunteers are to be found in depth throughout the leadership of business and industry. Their hub of endeavor is the U.S. Industrial Payroll Savings Committee so ably directed by its Chairman, a Californian -- Dan Haughton, President of the Lockheed Aircraft Corporation. It is a pleasure to pay respect here today to Dan Haughton's distinguished service to this program.

There are many others, here and elsewhere, such as Jack Countryman of California Packing Corporation, your Area Chairman, who is calling the signals for your own important campaign. And let me mention Jim Haight, Chairman of the Board of FMC Corporation, 1966 Chairman; and Reed Hunt, Chairman of the Board of Crown-Zellerbach, our 1965 and 1964 Chairman.

We should also recognize the great achievement of Mr. Hornby Wasson, President of Pacific Tel and Tel whose record was 86 percent participation among 90,000 employees -- number one job in the whole Bell System; and Gene Treffethen, Executive Vice President of Kaiser Industries, whose record was among those above the 50 percent mark.

In the various states, there also are volunteer State Chairmen for Savings Bonds drawn largely from the field of banking and finance -- like Paul Hoover, Chairman of the Board of Crocker-Citizens National Bank, who works closely with our Regional Director, Harold Stone, and our State Director, Newton McCarthy. Finally, and very important, cooperating with our volunteer State Chairmen as Honorary State Chairmen are the Governors of the States. We can not be stopped with such a team.

At the outset of my remarks, I mentioned the fact we all have an extra burden of responsibility in maintaining a steady economic footing under current circumstances. President Johnson's administration has taken the lead in responsible economic conduct through economic policies in the difficult and uncertain months of the recent past. I want to give you just a little background on the conduct of economic policy in the last 15 months because it is a necessary background to the understanding of our current policy stance.

I think that when we are able to look back upon 1966 in historical perspective, it is quite likely that 1966 may stand out as a year when the United States economy went through one of the most remarkable adjustments of all time. It witnessed a tremendous, fast-moving, surging drive of political, financial, and economic pressures which threatened to overload our economic circuits. And it witnessed the actions which were taken to meet and contain that drive -- to make the adjustments which averted the threat -- and to make these adjustments more smoothly, with less harm to the worthwhile directions of the total economy, than was ever the case under similar circumstances in the past.

In 1966 our nation faced:

For one thing, a business expansion boom of historic proportions at a time of nearly full employment and utilization of industrial capacity;

Second, and the result of an emergency that history will mark as a great watershed of the second half of this century, the intensification of the war in Vietnam, with all of its real and pyschological disturbances.

Viewing this situation last spring, I described the outlook in the following terms:

> "We have essentially two questions before us. The first is how best to shift smoothly to a lower level of real growth from the high levels of 1964 and 1965 in the current atmosphere of economic exuberance, aggravated by Vietnam.
>
> "And the second question is, once we have made this transition, how do we best sustain and employ our growth, at full employment and with stable prices....
>
> "While we cannot expect in the years immediately ahead to maintain the unusually high growth rates of the past several years, neither can we welcome a return to the very much lower rates of growth we have had throughout much of this century......
>
> "Our effort today -- as it was a year ago -- is to try to make the transition to a sustainable rate of growth as smooth as we can, to slow down without stalling. But today the circumstances are far different than they were a year ago -- and, with the advent of Vietnam and all the uncertainties surrounding it, they are far more difficult to assess."

Now, in early 1967, a very considerable part of that difficult passage has been negotiated. But we had to do battle along the way with complicating pressures that added contradictory problems to the 1966 economic scene.

Excessive credit demands combined with stern but necessary monetary restraint led by early summer to unusual conditions in the money markets. A cost-be-damned scramble for credit ensued. At the very same time there was a sharply

contradictory development: weaknesses in the stock and bond markets followed by weakness in vital sectors of the economy -- auto production, housing and consumer durables.

Gnawing uncertainities were aroused by the hints in the forepart of the year that beneath the boiling surface of the economy there were congealing cool spots. When we take account of the massive size of the forces that were at work within and upon the economy last year, it appears to me that we met and passed rugged and unusual tests with dislocations that were perhaps as small as could be expected under the circumstances.

A welter of argument is of course aroused by a year of such change, uncertainty and large scale developments. This tends to obscure the fact that grave dangers were avoided. Even more important, it also tends to hide accomplishments. Therefore, let me recount for you, if only very briefly, some of the very great achievements of the year just past:

First, two achievements that influenced all the rest:

-- Our gross national product increased by the extraordinary amount of some 5½ percent, after allowance for price rises.

-- The already enormous productive power of the United States economy was further bolstered by a record increase in industrial capacity, reflecting, in large part, the successful use in past years of investment incentives.

This added capacity, and millions of new workers added to the employed labor force, were critical to the successful transition of 1966; without them we could not have dealt successfully with the strong rise in defense and civilian production of 1966 with only about a 2 percent rise in the industrial component of the wholesale price index. Let me note, in contrast, that:

- -- industrial prices rose more than 10 percent between 1950 and 1951 under the pressure of the Korean build-up;
- -- and by more than last year's 2 percent in both 1956 and 1957 in the midst of the last sizable expansion, when no comparable defense build-up took place.

In this setting these further achievements were made in 1966:

At home:

-- Industrial production rose 9 percent;

-- Net income per farm rose more than 10 percent;

-- 2 million more workers found employment;

-- Unemployment averaged below 4 percent;

-- Corporate profits climbed 8 percent.

And internationally:

-- We held our own, and made some progress, in bringing our balance of payments problem under control despite the substantial increase during 1966 in our foreign exchange costs due to the war in Vietnam.

-- Our gold loss was cut by more than 50 percent below the previous year: except for French purchases we would have added nearly $200 million of gold to our stocks.

Perhaps most remarkable of all -- and as important as any other factor -- all this was accomplished without the imposition of those price, wage, and materials controls that have been found necessary in past similar national emergencies.

There was -- and is -- a further national dividend from our experience in 1966. This is, that the fact of having met and coped with such large-scale and highly volatile problems of free enterprise at one of its moments of excess gives us confidence that in the future also we shall be able to deal with big, fast economic adjustments without being forced to resort to the use of controls. This new knowledge of the capabilities of the American free enterprise economy may in the end turn out to be the greatest of all our many substantial gains in 1966. For this confidence is in itself a major factor in the future successful use of moderate measures even in situations of great urgency and pressure. One of the darkest

clouds that overhung events in 1966 was fear, based with good reason on past experience, that in the end we might have to suspend freedom of economic choice temporarily.

Further, the knowledge gained from 1966 will permit better coordination, better timing, better foreknowledge of what is likely to happen, so that the inequities and price increases of 1966 can be much further reduced in future times of economic stress.

Now for the current year:

Let us note, first of all that in the coming period, as in that just past, we will be living with the Vietnam situation, with all the uncertainty and potential change that this or any other war situation ever known implies. We must live with the fact that even the most carefully considered plans may be upset by the imponderables of war until the time comes -- whenever that may be -- that this emergency cools down.

Secondly, we should note that 1967 will in all likelihood witness further economic shifts and changes. These will require the most prudent handling, such as President Johnson's Budget and tax policies strive to provide.

It was these considerations that led the President to say, in his Economic Message of a few weeks ago:

> "Our task for 1967 is to sustain further sound and rewarding economic progress while we move toward solutions for the problems we met in 1966. It will require a flexible and delicate balance of economic policies."

The tax and spending programs in the President's Budget are designed to deal, flexibly and with good balance, with the economic developments that the year 1967 is expected -- now as when the Budget was issued -- to produce. In the large, this is: a first half that is sluggish by comparison to recent experience, and a second half in which the tempo picks up again. Thus, government policy is designed to be stimulative in the first half and moderating in the last half.

But the first big move in the new year -- the President's recommendation now before the Congress to restore the tax incentives to investment suspended last fall -- was made not for the above reasons but to keep a promise.

The view that it would be desirable, indeed obligatory, to reinstate the investment tax credit as soon as conditions warranted it, had been expressed both by the President and the Congress. In his statement upon signing the suspension legislation the President said:

> "If . . . any earlier reinstatement would be appropriate, I shall recommend prompt legislative action to accomplish that result."

The reports to the Congress of both the House Ways and Means Committee and the Senate Finance Committee stated:

> "If military requirements in southeast Asia should decrease before January 1, 1968, or if for some other reason it should become apparent that suspension of the investment credit and suspension of the use of the accelerated depreciation methods with respect to buildings are no longer necessary to restrain inflation, the Congress can promptly terminate the suspensions. The Administration has also indicated that it would recommend terminating the suspension period before January 1, 1968, under such condition."

In brief, the Administration and the Congress fully intended that the suspension of these important investment incentives should be terminated just as soon as the objectives of the suspension had been accomplished. Their objectives have been accomplished and therefore the incentives should be restored.

On the basis of the evidence that we have been observing, analyzing and carefully appraising, we can now state without qualification that the mission assigned to the suspension of the investment credit and accelerated depreciation has been accomplished.

Here is some of this evidence:

In the market for capital goods: 144

-- New orders for machinery and equipment have, beginning in October, declined steadily, reaching a level in January of this year of 7 percent below September 1966. Moreover, in January shipments actually exceeded orders 17 percent and this was the first month that backlogs actually fell since June 1963.

-- The average rate at which capacity is being utilized in the machinery industry has dropped noticeably to a healthier and more efficient rate. In electrical machinery, for example, it has declined from 97 percent to 91.5 percent.

-- The shortages of skilled labor are not so nearly acute today as they were last summer.

-- And, looking ahead, the recent Survey of Investment Plans for 1967, conducted by the Department of Commerce and the Securities and Exchange Commission shows a modest increase of less than 4 percent. This is within the growing productive capabilities of our machinery industries. It is in sharp contrast to the increases of 16 percent and 17 percent which occurred in 1965 and 1966.

Thus, while demand for capital goods remains at a high, even record level, it now reflects a healthy buoyancy in the capital goods industries and not the excessive, threatening, boom conditions that prevailed last summer.

One important result of this favorable development is in the area of our balance of payments. During 1965 and the first three quarters of 1966, imports of capital equipment jumped by an average of 13 percent per quarter. In the fourth quarter of 1966 the rise in imports of capital equipment was only 3.9 percent and this in part reflected deliveries on orders placed in earlier quarters. There is an excellent prospect of a levelling off of imports, now that domestic producers can take care of demands.

In the financial and money markets:

-- A dramatic decline in interest rates from the highest levels in 40 years has occurred.

-- Three-month Treasury bills are down one and one-quarter percentage points, from 5.60 percent to 4.35 percent.

-- Ten-year Treasury securities are down about seven-eights of a percentage point.

-- Short-term Federal agency securities are down one and three-eights percentage points.

-- New corporate Aa bonds are down nearly seven-eights of a point.

-- New municipal bonds are down two-thirds of a point.

-- The net inflow of funds to savings and loan institutions is now proceeding at a much more healthy rate. In the four months ending January, the inflow was at an annual rate of $8 billion. Last summer the annual rate of inflow was as little as $0.1 billion.

-- Credit availability for homebuilding has improved and mortgage rates have started to come down. In October the seasonally adjusted annual rate of housing starts had sunk to a low of 848 thousand units; in January starts had reached one and a quarter million units (seasonally adjusted, annual rates).

-- Corporate financial demands, while strong, are being accommodated in an orderly manner and yields are down.

-- Preliminary estimates suggest that for the first quarter of this year corporate issues are running below last year This contrasts with the first three quarters of 1966 when corporate security offerings were substantially above the year earlier levels.

While the situation has considerably improved in our financial and money markets, I do not want to give the impression that further substantial easing is unwanted or unnecessary. Far from it. There is room for further declines in interest rates, in our own financial markets, and in that of other countries. I hope and expect to see those declines realized, and I expect that credit will continue to become more readily available, particularly for homebuilding.

In the currently improved financial market environment, I believe that restoration of the investment credit is entirely consistent with maintaining good balance in the financial markets in the months ahead, and it is consistent with achieving further improvement in those markets. It will, of course, continue to be necessary for the Federal Government to keep its own demands in the credit markets within measured bounds.

The question naturally arises as to what bearing the termination of the suspension has on the President's recommendation for a surcharge on corporate and individual income taxes.

In this respect, it is necessary to note, first, that the two measures are quite different in design and purpose.

First, the suspension of the investment credit was not a revenue measure and had a specific and limited objective -- to dampen the excessive boom in the market for capital goods. The excessive boom is over, and there is no reason for continuing the suspension.

The surcharge, on the other hand, is an overall across-the-board fiscal measure designed to cope with the economic and budgetary situation as we anticipate it for the latter half of 1967 and throughout 1968. We expect the economy to be in need of overall restraint during that period We will certainly not want a resumption of monetary strains then either, and, as I have indicated, this places more than the usual bounds upon government demands. The surcharge will help achieve both those major objectives

In closing let me express a debt of gratitude from Treasury to you who are doing so much in the promotion of the sale of Savings Bonds. The growing stockpile of Savings Bonds assists the Treasury materially in managing the nation's finances -- maintaining a stable economy at home, and a strong economic position internationally, to back our stand for freedom in Vietnam and elsewhere in the world.

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The fact that so many Americans participate in the regular purchase of Savings Bonds is irrefutable and inspiring evidence of the effective energies and talents that you leaders of business, labor and industry have put into our programs to promote the buying and holding of these bonds. This has been a primary factor throughout the more than 25 years that the Savings Bonds Program has been in effect.

In promoting Savings Bonds, you have contributed -- as you will be contributing again this year -- not only to the nation's economic defense, and hense its military strenght, but to its spiritual well-being in addition.

President Johnson summed it up when he said, in announcing the new Freedom Shares program last month:

> "We can do no less than those who fight and die for our freedoms, Last year, American servicemen bought almost $350 million worth of Savings Bonds -- close to $90 million in the last quarter alone. Battle honors come hard in Vietnam, because the price of honor is often the price of life. Yet in jungle and hamlet -- on shipboard and airfield -- there is one trophy that every American unit prizes. It is not the enemy's flag. It is the Minute Man Flag that symbolizes 90 percent or better participation in the Payroll Savings Plan."

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TREASURY DEPARTMENT
Washington

FOR USE IN AFTERNOON NEWSPAPERS OF
FRIDAY, MARCH 17, 1967

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE
THE 14TH ANNUAL MONETARY CONFERENCE
OF
THE AMERICAN BANKERS ASSOCIATION
AT
THE DELMONTE LODGE, PEBBLE BEACH, CALIFORNIA
FRIDAY, MARCH 17, 1967, 1:30 P.M., P.S.T.

A WORLD MONETARY SYSTEM FOR A GREATER SOCIETY OF NATIONS

I am grateful for the privilege of addressing for the second time this distinguished Monetary Conference, representative of so many important nations. Last year at Granada, Spain, my emphasis was on the emergence of new opportunities to foster international economic cooperation.

My message here today is that new national political decisions to realize these opportunities must be taken promptly and decisively in our community of nations to assure continued progress, security and growth. The changed circumstances in which many, rightly or wrongly, feel released from those wants and fears that once bound them solidly together are all the more reason for zealously sharing in the common responsibility for an effective world monetary system.

This is not only my personal view -- should we fail to act, and act soon, to renew and strengthen international economic cooperation. My hopes -- and fears -- are widely shared in this country. As evidence, permit me to cite the following words from a Report of the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the U. S. Congress, issued last Fall and significantly entitled: "Twenty Years After: An Appeal for the Renewal of International Economic Cooperation on a Grand Scale." It said:

> "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."

I can tell you that the misgivings expressed in those words are shared by many in the Congress -- and elsewhere in the United States -- beyond the circle of highly important legislators who wrote that Report. And I am sure that in many other countries also there is an upwelling of this same feeling that unless we act soon and affirmatively, we may find in a very short time that we have let pass away from us one of those tides

> ".... in the affairs of men which, taken at the flood, leads on to fortune...."

All eyes focus this month and next on the Kennedy Round of trade negotiations. An early and successful outcome is vital if the nations involved are to avoid a grave risk of binding the world into sterile knots of timid, self-limiting national or regional restrictionism.

Equally decisive moments are ahead for efforts to build a more effective world monetary system.

Despite some shortcomings, a network of national and international arrangements has financed successfully in the last twenty years a collective economic growth and expansion in trade and development that is a landmark in history.

Indeed, while there is much evidence of a pulling apart or a halt in other areas of established international collaboration, the field of international monetary and financial cooperation is flourishing at a flood tide of activity.

But there is no doubt in the minds of knowledgeable men -- public and private -- that, despite all this activity, some significant and decisive improvements are necessary if retrogression is to be avoided and continuing progress assured toward a world monetary system for a greater society of nations.

I shall discuss three areas where improved arrangements are vital, timely and attainable:

1. National economic and financial policies designed for growth with stability, improved capital markets, and a balance of payments adjustment process that supports, rather than strains, the international monetary system.

2. A U. S. balance of payments program designed to achieve long term equilibrium in a manner that adds to rather than takes from free world security, trade, exchange and development.

3. A satisfactory means of deliberate and adequate creation of international reserves.

I. National economic and financial policies designed for growth with stability, improved capital markets, and a balance of payments adjustment process that supports rather than strains the international monetary system.

It has become clear that, in important parts of the Atlantic Community, there is now a problem of maintaining full employment and vigorous economic growth, and not only a problem of maintaining stable prices in the presence of full employment and rapid growth.

In the United Kingdom, of course, restrictive but necessary measures have been taken to promote the objectives of sterling stability and the restoration of balance of payments equilibrium.

The prospects for economic growth in Continental Europe this year fall short of the 4.1 percent annual rate consonant with the target established by the Organization for Economic Cooperation and Development for 50 percent growth in national product during the decade of the 1960's.

Only last November, in its publication, The Observer, the OECD projected that the real growth of domestic product in OECD Europe would fall to 3½ percent this year, as compared with 4 percent in 1965 and an estimated 4 percent again last year. Now, deterioration in the economic outlook in some countries suggests that the estimate for 1967 should be scaled down from that figure.

This threat of a slowdown in Europe's growth reflects many factors. Among the underlying causes are:

First, as the industrial economies moved through the rapid growth payoffs of the modernization of their productive systems, resulting in large part from war reconstruction and access to larger market areas, they found in moving up to full utilization of their manpower and equipment that they were confronted by a serious problem. This problem was: how to keep their growth advancing satisfactorily without fast rising prices and without unsettling their balance of payments current accounts.

Second, there was a political disinclination to employ fiscal policy, actively and flexibly, as a countercyclical weapon, or to forge an effective incomes policy.

Third, caught between fear of inflation and a feeling that other policy courses were too difficult, public authorities in many European countries have largely concentrated on general monetary restraint, reflected until very recently in ever higher interest rates and tightness of credit.

We need now to renew the determination we expressed in the OECD in 1961 to aim -- by our individual and our collective efforts -- at not less than a 4 percent rate of economic growth in our community of nations.

Despite the doubts of the timid that we could, or should, aim so high, the OECD countries as a whole achieved a growth rate in the first half of the 1960's of 4.9 percent in real terms.

Consequently, it is time to re-emphasize that many of our hopes rest upon a vigorously rising growth curve. It should be underscored that a valuable weapon against inflation is rising production at stable or lower unit costs,

made possible by new investment and continuous and generous outlays for education and training of the workforce.

This is not to discount the active control of the supply of money and credit as a key element in any program to achieve sustained and adequate growth with reasonable price stability.

But it is designed to emphasize the importance of other related policies:

-- Policies that promote rapidly increasing efficiency;

-- Policies that appropriately relate government spending and the level of taxes;

-- Policies that appropriately relate the rate of increase in government spending and the rate of economic growth.

Countries that shield themselves from inflation behind a long maintained wall of interest rates so high, or a shortage of credit so great, as to unduly and persistently discourage borrowing and investment risk the danger of economic stagnation.

The trouble with the stagnation cure is that, by discouraging investment and public outlays that tend to lift the productive skills of the workforce, productivity also stagnates and unit costs go up.

Consequently, first among the resolves of our community of nations in 1967 -- and for the years ahead -- must be a firm intent to engage in those public policies, and encourage those private policies, that promote a healthy rate of growth by keeping demand in balance with capacity, and raising productivity so as to permit both profits and wages to increase in a sustainable relationship to productivity. On such a tide, we can embark to greater things.

Among policies that can contribute to healthy economic growth are policies -- public and private -- tending to keep the cost of money within reason and keep credit available. It was to this end that I met in January with several other finance ministers at the country home of the British Prime

Minister. We resolved there that we would, each according to conditions in his own country, aim consciously at a mix of monetary and fiscal policies designed to deal with inflation and the balance of payments adjustment process that would tend to keep interest rates from rising to the point where investment -- the goose from which all golden eggs must come -- is arrested.

Moreover, it was agreed that economic policy choices in a given country should have regard to their effect in other countries. The prime example of what we were concerned about is, of course, a country with a balance of payments equilibrium or surplus which concentrates on high interest rates to restrain domestic inflation, thereby pulling in funds from the outside to add to surpluses with potentially unbalancing effects in other countries. Given this situation, the other countries affected will escalate their own interest rates as a holding operation, impose other restraints on the flow of capital, or go into a deficit.

The Chequers meeting was an attempt to give effect, upon a multi-national scale, to the use of national economic policy to smooth and ease the processes of adjustment of international payments balances along the lines suggested last August by the Economic Policy Committee of the Organization for Economic Cooperation and Development in the very excellent Working Party Three Report on the Balance of Payments Adjustment Process.

Only a little reflection is needed to see that if the joint and separate efforts envisaged at Chequers are successful in keeping money rates within reason generally, we will have struck a blow effective in all the directions the OECD Report suggested -- toward more efficient economies, toward better balance and more flexible and selective use of both fiscal and monetary policies, and very specifically toward capital markets much better able everywhere to amass savings and channel funds to the points of investment needs.

On the same weekend of the meeting of Finance Ministers at Chequers there was an equally significant conference of 60 private bankers and industrialists from Europe, North America and Japan at Cannes, France under the sponsorship of the Atlantic Institute and the Business and Industry Advisory Committee of the OECD. This conference focused on these main points:

1. The improvement of national capital markets;

2. Means of improving international linkages and capital flows;

3. The impact of government policies on capital markets.

Both the Background Papers and the Recommendations opted at the conclusion of the Conference are required ading for all public officials and private persons who are the convictions stated in the opening paragraphs of e Recommendations:

> Increased investment is required to assure a rapid increase of production and productivity. With monetary stability and a high level of employment, this brings higher real wages and incomes for all. This sequence is the essence of sound economic growth. Both governments and private enterprise require ever greater quantities of investment capital as a consequence of the growth of population and the quickening pace of technical progress. At the same time OECD member countries ought to increase their flow of capital to developing countries.
>
> This growing demand for capital is not being met by comparable increases in supply. To meet the additional needs, measures must be taken to improve capital markets. Moreover, recourse must be had to more effective use of budgetary policy and adequate self-financing for public and private enterprise.

The January meetings at Chequers and Cannes, as well as is meeting here, are encouraging illustrations of continued fort to bring coordinated national economic and financial licies to bear effectively so as to promote healthy onomic growth, improved capital markets and a payments ustment process that supports rather than strains our ernational monetary system.

II. A U. S. balance of payments program designed to achieve long term equilibrium in a manner that adds to rather than takes from free world security, trade, exchange and development.

The U. S. balance of payments, and programs designed to affect it, must be viewed in several perspectives.

Whether enjoying surpluses or coping with deficits, the U. S. balance of payments adjustment process has become a key element in the political, military, diplomatic and international economic policies of the United States and of major concern to the world at large. This is true for several reasons:

First, the key role of the United States in free world security, trade, exchange and economic development;

Second, the important role of United States generated capital, public and private, and the business activity that flows from it, in many countries outside the United States;

Third, the special position of the dollar as a reserve and transaction currency on a world wide scale, making it the keystone of the international monetary system on which free world trade and development depend.

Another perspective is the long series of deficits in U. S. payments. Beginning in 1958, rising claims upon our gold stock signalled the end of the world's almost total postwar dependence upon the dollar, the increasing strength, desirability and convertibility of other currencies, and the availability of sufficient dollars in foreign official holdings to permit a shift in the mix of monetary reserves in favor of gold.

The series of heavy deficits in the three years 1958-60, averaging $3.7 billion per year, on the "liquidity" basis, and accompanied by gold outflows averaging nearly $1.7 billion per year, signalled the need for a program to bring U. S. payments into substantial equilibrium.

Beginning in 1961 the U. S. government initiated a series of measures to reduce the deficit without disrupting trade and travel,and without abandoning its key role in free world security and development.

This effort was thrown off target by at least four developments, each transitory and somewhat unpredictable:

1. The Berlin crises with the necessary force build-up in 1961-2;

2. A sharp upswing in the levels of private foreign borrowing in 1962 and 1963;

3. A sharp increase in private capital outflows between 1962 and 1964;

4. The rapid increase in military foreign exchange costs in late 1965 and in 1966 resulting from stepped-up military operations in Southeast Asia.

Despite these adverse developments the deficit, easured on a liquidity basis, fell from the average of $3.7 illion in the years 1958-60 to an average of $2.5 billion n the years 1961 through 1964. In 1965 and 1966 it as further reduced to $1.3 billion and $1.4 billion respectively. his occurred despite an increase during that time in net ilitary expenditures outside the United States because f Vietnam costs exceeding $950 million and a decrease in ur trade surplus from the peak level of 1964 by $1.9 illion in 1965 and by $3 billion in 1966.

On the official settlements basis, there was an average eficit of $0.5 billion in 1965-66, compared to $2.2 billion n the preceding five years.

I am not going to dwell today on the short term or emporary measures being used to restrain or moderate private apital flows. We are relying on them to keep our deficit nder control during the period of our special commitments n Southeast Asia, the period required to realize the enefits of our long-range program.

There is already too much emphasis in public discussion on this holding operation, tending to obscure both the existence and strategy of the long range program we are employing in the balance of payments adjustment process.

That program -- for coming into, and maintaining, a sustainable equilibrium -- is essentially a long term one, aimed at solving the problem,

-- not by a resort to restrictions or withdrawals that are damaging to free world security, trade, exchange and development,

-- but by making use of this nation's unexampled economic strength in the context from which that strength has been derived: competitive free enterprise.

The success of this strategy and program, it should be understood by all concerned here and in other countries, depends importantly on (1) an open, competitive and cooperative international economic order and (2) substantially strengthened multilateral arrangements to insure the financial viability of programs for free world security and aid to developing nations.

I continue to find it necessary and relevant to emphasize to my colleagues from other countries that the way in which this nation handles its balance of payments problem depends in large measure on the cooperation it receives from other countries in the process, and upon the way in which other important financial nations act in dealing with their own domestic and international monetary problems. I find it also necessary to emphasize that this cooperation is not a matter of helping the U.S. deal with its problem, but a matter of enabling the United States to deal with its problem without: undermining the international monetary system, subjecting that system, by unilateral action to radical and undesirable change, or withdrawing from commitments involving the security and development of others.

The United States' long term balance of payments objective -- stated most simply -- is to reach and sustain the degree of equilibrium necessary to preserve confidence in the stability of the dollar, both as a transaction and as a reserve currency.

Our long term measures for achieving sustainable payments equilibrium are not matters for the future. They are in being as a program of action that is already showing effects.

The success of this program requires, at home, general recognition, and acceptance in action, of the proposition that this is a problem requiring the attention and energy not just of the government but of both the public and private sectors, throughout the nation. Abroad, it is necessary for the realization to grow that if the United States is to carry on its balance of payments adjustment process in a constructive rather than a damaging manner, it will require not only our own action but the cooperative response of others as well.

Our long range approach to our payments problem rests upon the following propositions:

1. The United States must continue to export Government capital for bilateral economic assistance, and for contributions to multilateral development assistance institutions.

2. The United States must continue defense expenditures abroad for mutual security in the Free World.

3. The United States must continue, over time, to export private capital. This is practical; it is sensible; it is necessary. Moreover, the dividend and royalty receipts for past investments must continue to be brought home -- and in increasing amounts -- to reward the stockholder and benefit the balance of our payments.

4. The United States must continue to discharge its worldwide responsibilities to the international monetary system through its reserve currency and transactions currency roles.

In order to support continued, even though fluctuating, governmental and private outflows, the United States will have to earn a large current account surplus to accommodate those outflows -- certainly larger than it earned in 1966 or in 1965.

Industrial nations, particularly those in surplus, must assume a greater share of the burden of adjustment as well as of economic assistance.

Now let me give you an outline of what our long range program includes, looking first at what is being done to increase receipts from abroad.

Exports

First and foremost, we must maintain levels of costs and prices necessary for a strong competitive position in world markets.

In the export promotion field the Commerce Department is now engaged in a host of important and productive works which have a direct beneficial impact on exports today and provide even greater promise for tomorrow.

Commencing several years ago the Commerce Department expanded its Trade Mission and Commercial Fairs Program. The figures of attendance and sales concluded demonstrate that these slow germinating efforts are now bearing excellent fruit. Information available to the business community at the Commerce Department provides a valuable index and guide to export-minded firms. Further, through the National Export Expansion Council more companies are being made aware of the opportunities available in selling abroad.

The Export-Import Bank has a new rediscount facility, and it is steadily streamlining its lending and guarantee programs.

More needs to be done in the export field. To this end, a number of questions are being raised: Has the Government simplified its regulations -- tax and otherwise -- and its financial facilities enough? Is American business throughout the world as imaginative and aggressive as it might be? Must more be done -- perhaps directly -- to

stimulate the interest of our commercial enterprises to sell abroad? Have we done enough to compete at home, on a fair and nonrestrictive basis, with goods now imported? We must constantly ask ourselves such questions and re-evaluate the answers.

Travel

The President has announced that he will shortly appoint a Special Travel Task Force to recommend means by which the U. S. Government, working in cooperation with the private sector, can accelerate foreign travel here. Although the travel gap has been widening ($1.8 billion in 1966 compared to $1.3 billion in 1960), receipts from overseas visitors have doubled since 1960. A well-financed, joint Government-private sector effort can surely bring results.

Foreign Portfolio Receipts

By the Foreign Investors Tax Act, the United States has attempted to help make the tax treatment of investors in this country more equitable. The Treasury is now working with members of the financial community to spread the realization that U. S. corporate securities are one of our most promising export products.

In the financial field, several countries have invested a portion of their reserves in longer term United States investments. The yields earned by these investments in long term instruments -- purchased with varying maturities to provide for liquidity needs -- make them a productive manner in which to carry official reserves.

Investment Income

We come now to a point at which our basically long range view of our payments problem, and what we can and should do about it, shows through in our short term program. It is a vital part of our long term payments outlook that our income from investments abroad should steadily increase, and should be regarded as a bulwark of long range U.S. balance of payments strength.

Now, let me make two points:

First, our voluntary program does not seek to cut off the flow of United States private investment overseas. What we do seek is to moderate those outflows by means that mitigate their impact upon our international payments accounts.

Second: From 1960 through 1965 American investment in Europe in manufacturing, petroleum, mining and smelting enterprises has averaged $2.7 billion annually. By and large, fixed investment expenditures were more than covered by direct outflows of funds from the United States, retained earnings and depreciation allowances. Financing from foreign sources has covered only working capital requirements.

U. S. contributions to European prosperity in the form of new plant have come basically from the U. S. On an overall basis, there is no reason why local funds should not finance part of the fixed investment as well as local working capital needs.

On a world-wide basis, plant and equipment expenditures overseas came to $6.2 billion in 1964, and 39 percent of it was financed directly from the U. S. Retained earnings and depreciation allowances approximately financed the remainder. The gross figure for 1967 may come to $10 billion, with the amount directly financed from the United States less than 30 percent, so that the net direct investment outflow figure should be no higher than it was in 1964.

Improving Foreign Capital Markets

Increased efficiency of foreign capital markets is a vital ingredient in the successful working of the international adjustment process -- which is in essence what I have been discussing.

The need for this development is dramatically illustrated by several facts. Between 1958 and 1965 the United States was a net exporter of capital in the amount of billion as a result of foreign issues on the domestic market less domestic issues abroad. In the same period

the Common Market countries were net importers through security issues, and indeed on overall capital accounts had a net influx of almost $1 billion. In these 8 years these EEC countries were running surpluses on current account amounting to $13.5 billion. Thus, in that case, not only was there a failure to export capital, but imports of capital were defeating the balance of payments adjustment process.

The importance of the issue need not be dramatized to this audience. Nor do I have to point out that great strides forward are not taken quickly. Nevertheless many forces are working in the direction of freer and larger markets, and results indicated by one index, the volume of international issues, increased substantially. Local markets too have participated in this expansion and, perhaps more importantly, financial interests, both government and private in developed nations, seem to want to move in this same direction. Efforts are underway to improve the gathering of savings and the efficient employment of these funds in improved and freer capital markets. This is responsibility in the private area exactly analogous to responsibility in the world of public economic assistance and mutual security.

<u>Moderating Foreign Exchange Costs of our Overseas Commitments</u>.

Better Burden Sharing

The determination of the share a nation should bear in helping to meet the economic assistance requirements of the less-developed world and the security requirements of our community of nations requires difficult and continuous decisions on a host of issues. These issues cannot be resolved solely on the basis of domestic resources or budgetary considerations.

I believe the Asian Development Bank represents the kind of burden-sharing necessary if the industrial nations are, together, to promote economic progress in the less-developed world in the decades ahead. The Bank has capital of nearly a billion dollars, of which $200 million came from Japan, $200 million from the United States, $415 million from other regional donors, and $150 million from Western Europe and Canada.

While no absolute precision is suggested in the relationship of these numbers, they reflect a realization on the part of many nations that they have responsibilities, that they must meet them, and that the United States should not and cannot bear the whole burden, or even a majority of it any longer.

We will be asking the Congress this year for new funds for the Inter-American Development Bank, the International Development Association, and the Asian Development Bank. In making each request, we have asked and will continue to ask our selves:

(a) What are other donor countries contributing?

(b) How aggressively have the institutions in question attempted to borrow in the capital markets of other donor countries?

(c) What are the recipients doing, through self-help efforts, to utilize the money efficiently? (This is one of their key roles in "burden-sharing.")

(d) What safeguards are the institutions providing for donor countries that may from time to time be in balance of payments difficulty themselves?

In another area, AID is making a diligent effort, through progressively-refined tying techniques, to ensure that our overseas economic assistance is provided, to the greatest extent possible, in the form of U. S. goods and services. Net dollar outflows on government grants and capital have been reduced from $1.1 billion in 1961 to an estimated $736 million in 1966. In addition there is increasing effort to make sure that Government-financed exports do not substitute for commercial exports that would have been purchased in any event. In the long term this should contribute substantially to the development of commercial markets.

On the military side, we are seeing now the difficulties that ensue when alliances, although effective militarily and politically, lack viable financial formulations.

This cannot happen again, and our long-range program involves a major effort to see that it does not.

Between 1961 and 1965 net military foreign exchange expenditures were reduced from $2.5 billion to $1.6 billion despite the Berlin Crisis build up. In 1966, because of Vietnam, the gap widened again. But even without Vietnam the burden on the United States balance of payments from its contribution to international security could be large. The United States has vast resources -- we have been and are willing to utilize them freely in the defense of freedom -- but the foreign exchange problem adds complications.

Improved Financial Arrangements

Ways must be found to neutralize these foreign exchange costs. Alliances which rest on important political, social, economic and military plans should not be made vulnerable because foreign exchange financing problems have not been resolved.

We should be able -- indeed we must find ways -- to work constructively with our allies on forms of multilateral financial arrangements designed to neutralize the foreign exchange consequences of the locations of our troops and those of our allies. The arrangements should be long term and provide financial viability to our alliances. Discussions now under way between the United States, the United Kingdom and the Federal Republic of Germany designed to work out security and financial arrangements in a trilateral setting may point the way to designs that could embrace other multilateral arrangements.

Looking back over the elements of the U. S. long range program for balance of payments adjustment, it can be fairly stated that its realization would, as I have indicated it should, support, rather than strain, the healthy working of the international monetary system and free world security, trade, exchange and development.

III. A time for decision on contingency planning for adequate international reserves

Whatever may be our resolves in favor of economic growth, whatever else we may do to make more rational use of the economic resources available to us, however we may strive to improve the processes of adjustment of our international payments balances, whatever we may do to share more equitably the tasks of defending the peace and encouraging the processes of economic growth beyond our own borders, all our good resolves and all our efforts can be frustrated for lack of adequate growth in world reserves.

Yet, the facts are that:

-- During the past two years the traditional processes by which world reserves are increased have not yielded a growth of liquidity;

-- Such inadequate growth of reserves as has occurred in the past two years was due to *ad hoc*, uncontrolled and impermanent special factors, that cannot be projected to the future.

Only one conclusion can be drawn from this picture of prevailing uncertainty as to the future of reserve growth through presently available processes, and that conclusion is the heart of my message to this international monetary conference:

> We can no longer take continued reserve growth for granted. Consequently, since we want our economies to continue to grow at healthy rates, there is no time to waste before we agree upon new means for adding to the world's ability to increase monetary reserves. We should therefore make it our conscious aim to arrive at agreement, in our negotiations during the next few months, on the structure and major provisions of a contingency plan for reserve creation, a plan sufficiently developed to be presented for approval to the Governors of the International Monetary Fund when they meet at Rio de Janeiro in September.

If we take a conservative view of the time that would be required after IMF action to attain ratification by the legislatures of the scores of nations that would be parties to such a plan, the machinery could not come into being for about a year.

Whether that is, or is not, an adequate time schedule for getting the machinery in place to make the creation of a new reserve asset a practical possibility depends upon the course of events. Let me make it entirely clear that I am talking about the need to complete and approve contingency planning for reserve creation, and not about the activation of the machinery we agree upon. Agreement on the plan would in itself be reassuring to the markets.

But the uncertainties surrounding the future growth of reserves, with the means now a hand, are so great, while the need for increased liquidity to finance a continued healthy growth in our domestic economies and in world trade is so certain, that the desirability of having new means available to create reserves, for use when needed, has become uncontestable and current.

I want to examine this need for agreed-upon facilities for keeping the growth of world liquidity consonant with world economic growth against the background of the principal arguments that have been advanced for delay.

Before that, however, let me say that one of the most compelling reasons for current agreement upon a contingency plan for reserve creation is the fact that it would lay to rest the malaise that now afflicts the international system as it contemplates a growing world confronted by increasing uncertainty about the future adequacy of reserves

We must attribute to the current uncertainty as to how new reserves are to be supplied to the international monetary system in the future the suggestions heard recently that the official price of gold be increased. This suggestion is regarded by the great preponderance of financial and economic opinion as undesirable, inequitable and impractical. By official statement, the United States has made it unequivocally clear that the price of gold will not exceed what it has been since 1934 -- $35 an ounce -- and that any suggestion to the contrary -- either to meet needs for additional international liquidity or for any other reason -- is completely unacceptable to the United States.

One of the principal causes of the drift, that I noted at the outset of these remarks, away from the processes of international economic collaboration and liberalization and in the direction of national and regional restrictionism must also be attributed at the root to uncertainty as to whether, in the future, mechanisms will exist that will dependably supply liquidity when needed. Such agreement would serve the very important purpose of giving assurance that we shall be able in the decades ahead to complete and extend the great work of world economic and social betterment of the past two decades marked by the growth of international economic cooperation, trade liberalization and return to currency convertibility.

Finally, let me just state plainly a plain truth:

-- All countries wish to increase their reserves

-- This is not possible unless the total of reserves increase.

The following are the disagreeable implications of that plain truth:

-- In a situation in which reserves are not increasing and in which it is not clear how or how much they can increase in the future, it is only possible for some countries to

> increase their reserves at the expense of losses by other countries. In an international competition designed to gain reserves, countries rely upon defensive beggar-thy-neighbor measures that restrain international trade and investment, and domestic growth.

It is difficult to see how, in these circumstances, there can be any question as to the need for an agreed contingency plan for adding to world reserves when and as needed.

The idea that the United States looks to reserve creation as a means of solving balance of payments deficits -- ours or any other country's -- is false. The obvious fact is that such abuse of the new asset would quickly weaken, and soon destroy, its usefulness as a monetary reserve. It should be abundantly clear to all that we would not seek the means to create reserves only to destroy the usefulness of the new assets.

Let me restate our position:

First, we seek a way for the nations of the world to supplement monetary reserves with a deliberately created asset in order to be able to deal with the world's real and demonstrable need for additional reserves, when and to the extent that need makes itself evident. This would of course be the global need.

Second, we seek the means for doing this upon the basis of the informed and responsible judgment of the monetary and financial authorities, arrived at through due deliberations of the members of the International Monetary Fund, with appropriate consideration for the responsibilities of the principal capital-generating nations.

Third, as I have indicated in the foregoing section of these remarks, we are striving for agreement on contingency plans for reserve creation in the context of an insistent program -- long term and short term -- for curing our balance of payments deficit that is achieving its objectives, excepting for the time being, the abnormal and impermanent foreign currency costs of the war in Vietnam. Our balance of payments program must for the present make use of short term measures to compensate for the foreign exchange cost of Vietnam, so long as they persist. The problem of arriving at a sustainable payments equilibrium position now lies chiefly in a transition to long term from short term measures for dealing with our foreign exchange balances.

We look, in this matter, to our own program for balancing our foreign exchange costs -- and to such improvements in international financial arrangements as better capital markets, fairer burden sharing and better adjustment processes Reserve creation is a necessity above, beyond and separate from the payments problem.

It is sometimes asserted that the very existence of U. S. balance of payments deficits implies increases in world reserves, and that, therefore, so long as we have deficits, another means for increasing reserves would be redundant and perhaps even harmful.

The facts are the following for 1965 and 1966:

The traditional means for increasing reserves -- chiefly additions to world monetary gold and additions to foreign exchange held as reserves other than by special transactions -- resulted in a decline of just over $1 billion in world reserves.

There was a modest growth of reserves in these two most recent years, amounting to about $2.5 billion all told, but this was due entirely to special transactions, largely to special borrowing from the IMF, swap arrangements, conversions by the United Kingdom of dollar investments into dollar reserves and other special factors.

In considering the implications of current developments for the future of reserve growth, it should be kept in mind that much of the reserve growth of the past two years resulted, as I have just indicated, from borrowings of various kinds. These will be -- indeed, are being -- repaid. As they are repaid, existing reserves are cancelled out.

Also in considering the future prospects for reserve growth by the means presently at hand, it must be asked, what has happened recently to the traditional sources of reserve increases?

First, the flow of gold into official reserves, which averaged half a billion dollars a year in 1960-64, has stopped. In 1965, official reserves got only a quarter of a billion dollars additional gold. In 1966, gold in official hands actually declined -- perhaps by as much as $100 million -- for the first time in modern history.

Second, it must be asked, why did not continued dollar balance of payments deficits increase reserves, even though we did not get gold additions?

The answer lies in the fact that conversions of dollars into gold have more than offset dollar additions to official reserves in the past two years.

To the extent that dollars are used to draw down our gold stocks, world liquidity is decreased. This happens because our reserves are in the form of gold. Consequently, when France -- to mention the chief, but not only purchaser of U.S. gold -- uses some of its dollar reserves to purchase our gold, French reserves remain the same in amount although changed in form, but our reserves decline, and consequently, total world reserves are diminished.

> It cannot be said that current circumstances altogether rule out any further growth of reserves through traditional processes. But that is not the point. The point is that the reserve needs of the world -- including the need to reverse the long downtrend in the reserves of the United States -- will substantially exceed any such remaining flexibility that traditional reserves can provide. We should not -- indeed, must not -- wait to set up the machinery for creation of a new reserve asset.

The time to do so is now, this Spring and this Summer. The technical experts of the Group of Ten and the IMF have labored long and, to their everlasting credit, have come up with the main provisions of the technical solution to the problem. There are only a few major issues yet to be treated. Their work will be embodied in reports to be issued later this year.

It is our hope, expectation and position that at the Annual Meeting of the International Monetary Fund in September of this year the Governors will approve the structure and major provisions of a specific plan.

What is needed now is simply the realization that the time of need is not far off, and the political will to assemble the parts of the solution that lie before us, and agree upon the assembled whole as a contingency plan.

There are very serious risks, should we permit the doubts of one or two governments to keep the rest of us from doing what we know should be done. We have noted, in an earlier portion of these remarks, an assessment of the nature of those risks. We have glimpsed their potential for world economic, social and political trouble.

Let me conclude this part of our discussion with a statement of what it is that we seek. We seek to assure ourselves -- and the rest of the world -- that when in the course of our economic and social growth we have need of reserves as an essential base for international finance in all its aspects we shall not have to retreat into stale and timid and destructive restrictionism, for want of means to make liquid reserves available.

We seek an open, competitive, fruitful world economy, made up of open, competitive and fruitful national economies, as the indispensable means that will permit us, and the rest of the world, to get on with the work of building, upon the basis of our individual better societies, a Greater Society of Nations.

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TREASURY DEPARTMENT
Washington

FOR USE IN AFTERNOON NEWSPAPERS OF
WEDNESDAY, MARCH 15, 1967

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE A LUNCHEON MEETING OF THE SOUTHERN CALIFORNIA
INDUSTRIAL PAYROLL SAVINGS COMMITTEE
AT THE AMBASSADOR HOTEL, LOS ANGELES, CALIFORNIA
WEDNESDAY, MARCH 15, 1967, 2:00 P.M., P.S.T.

When President Johnson announced our new "Freedom Shares" less than a month ago, he set off a new surge of energy in the campaign for buying and holding U.S. Savings Bonds. This surge is needed, because this year the Savings Bonds program is more important to our economic stability than ever.

There is today an impelling need for a greatly stepped up bond program to help finance the Vietnam War in the soundest possible way, and to promote a healthy, stable economy. The bond program, with your help, has done well in the past year. Holdings of Savings Bonds now stand at a record high of more than $50 billion. But sales this year must be even larger. And with the addition of the "Freedom Shares," which President Johnson has called "a cheerful companion" to the regular Savings Bonds, the bigger sales and holding figures will be reached.

We all bear special responsibilities, in the context of the special conditions of 1967, for a high level of responsible economic conduct. One facet of this, as I have just indicated, will be found in a new and more urgent application of your time, talent and energy to Savings Bonds sales assisted by the availability of an attractive new product -- the Savings Note.

But we will also need special care and responsibility on the part of all to pick our way successfully through the changeable economic terrain we expect to encounter this year.

I want to discuss the prospects with you, but to understand better where we are going, we must first look back to where we have just been.

I think it is likely that 1966 may stand out in historical perspective as a year when the United States economy went through an economic adjustment that was both remarkable and significant. The year witnessed a large scale, fast-moving drive of political, financial, and economic pressures which threatened to overload our economic circuits. And it witnessed a series of actions which were taken to meet and contain that drive, more smoothly, with less harm to the worthwhile directions of the total economy, than was ever the case under similar circumstances in the past.

In 1966 our nation faced:

For one thing, a business expansion boom of historic proportions at a time of nearly full employment and utilization of industrial capacity;

Second, and the result of an emergency that history will mark as a great watershed of the second half of this century, the intensification of the war in Vietnam, with all of its real and psychological disturbances.

Viewing this situation last spring, I described the outlook in the following terms:

> "We have essentially two questions before us. The first is how best to shift smoothly to a lower level of real growth from the high levels of 1964 and 1965 in the current atmosphere of economic exuberance, aggravated by Vietnam.
>
> "And the second question is, once we have made this transition, how do we best sustain and employ our growth, at full employment and with stable prices....

> "While we cannot expect in the years immediately ahead to maintain the unusually high growth rates of the past several years, neither can we welcome a return to the very much lower rates of growth we have had throughout much of this century....
>
> "Our effort today -- as it was a year ago -- is to try to make the transition to a sustainable rate of growth as smooth as we can, to slow down without stalling. But today the circumstances are far different than they were a year ago -- and, with the advent of Vietnam and all the uncertainties surrounding it, they are far more difficult to assess."

Now, in early 1967, a very considerable part of that difficult passage has been negotiated. But we had to confront along the way complicating and contradictory problems.

Let me give you an idea of the contrariness of economic events as seen from the policy maker's seat:

Excessive credit demands combined with stern but necessary monetary restraint led by early summer 1966 to demands for credit in which the cost of money seemed at times not to matter to many borrowers. But simultaneously there was a sharply contradictory development: weakenesses in the stock and bond markets followed by weakness in vital sectors of the economy -- auto production, housing and consumer durables.

The surface of the economy was boiling. But hints kept coming in that the boiling surface concealed congealing cool spots below.

One of the outstanding products of such a year is bound to be a welter of controversy. So far as 1966 is concerned this conceals two highly important facts: first, that grave dangers were avoided, and, second, that there were solid accomplishments. Therefore, I want to take a few moments to look beneath the currently boiling surface of controversy to the inside story of what really happened in 1966.

First, two overall achievements that made all the rest possible:

-- Our gross national product increased by the extraordinary amount of some 5½ percent, after allowance for rising prices.

-- The already enormous productive power of the United States economy was further bolstered by a record increase in industrial capacity, reflecting, in large part, the successful use in past years of investment incentives.

This added capacity, and millions of new workers added to the employed labor force, were critical to the successful transition of 1966; without them we could not have dealt successfully with the strong rise in defense and civilian production of 1966 with only about a 2 percent rise in the industrial component of the wholesale price index. Let me note, in contrast, that:

-- industrial prices rose more than 10 percent between 1950 and 1951 under the pressure of the Korean build-up;

-- and by more than last year's 2 percent in both 1956 and 1957 in the midst of the last sizable expansion, when no comparable defense build-up took place.

In this setting these further achievements took place in 1966:

At home:

-- Industrial production rose 9 percent;

-- Net income per farm rose more than 10 percent;

-- 2 million more workers found employment;

-- Unemployment averaged below 4 percent;

-- Corporate profits climbed 8 percent.

And internationally:

-- We held our own, and made some progress, in bringing our balance of payments problem under control despite the substantial increase during 1966 in our foreign exchange costs due to the war in Vietnam.

-- Our gold loss was cut by more than 50 percent below the previous year: except for French purchases we would have added nearly $200 million of gold to our stocks.

And now I come to something that, in my opinion, cannot be too strongly emphasized:

> Perhaps most remarkable of all -- and as important as any other factor -- all this was accomplished without the imposition of those price, wage, and materials controls that have been found necessary in past similar national emergencies.

There was -- and is -- a further highly significant national dividend from our experience in 1966.

This is, that the fact of having met and coped with such large-scale and volatile problems of free enterprise at one of its moments of excess, without resort to heavy handed measures and despite the advice of many to be heavy handed, gives us confidence that in the future also we shall be able to deal with big, fast economic adjustments without departures from the context of free enterprise. This new knowledge of the capabilities of the American free enterprise economy may in the end turn out to be the greatest of all our many substantial gains in 1966. For this confidence is in itself a major factor in the future successful use of moderate measures even in situations of great urgency and pressure.

Further, the knowledge gained from 1966 will permit better coordination, better timing, better foreknowledge of what is likely to happen, so that the inequities and price increases of 1966 can be much further reduced in future times of economic stress.

Now for the current year:

Let us note, first of all that in the coming period, as in that just past, we will be living with the Vietnam situation, with all the uncertainty and potential change that this or any other war situation ever known implies. We must live with the fact that even the most carefully considered plans may be upset by the imponderables of war until the time comes -- whenever that may be -- that this emergency cools down.

Secondly, we should note that 1967 will in all likelihood witness further economic shifts and changes. These will require the most prudent handling, such as President Johnson's Budget and tax policies for 1967 strive to provide.

It was these considerations that led the President to say, in his Economic Message of a few weeks ago:

> "Our task for 1967 is to sustain further sound and rewarding economic progress while we move toward solutions for the problems we met in 1966. It will require a flexible and delicate balance of economic policies."

The tax and spending programs in the President's Budget are designed to deal, flexibly and with good balance, with the economic developments that the year 1967 is expected -- now as when the Budget was issued -- to produce. In the large, this is: a first half that is sluggish by comparison to recent experience, and a second half in which the tempo picks up again. Thus, government policy is designed to be stimulative in the first half, and moderating in the last half.

But the first big move in the new year -- the President's recommendation now before the Congress to restore the tax incentives to investment suspended last fall -- was made not for the above reasons but to keep a promise.

The view that it would be desirable, indeed obligatory, to reinstate the investment tax credit as soon as conditions warranted it, had been expressed both by the President and the Congress. In his statement upon signing the suspension legislation the President said:

> "If .... any earlier reinstatement would be appropriate, I shall recommend prompt legislative action to accomplish that result."

The reports to the Congress of both the House Ways and Means Committee and the Senate Finance Committee stated:

> "If military requirements in Southeast Asia should decrease before January 1, 1968, or if for some other reason it should become apparent that suspension of the investment credit and suspension of the use of the accelerated depreciation methods with respect to buildings are no longer necessary to restrain inflation, the Congress can promptly terminate the suspensions. The Administration has also indicated that it would recommend terminating the suspension period before January 1, 1968, under such conditions."

In brief, the Administration and the Congress fully intended that the suspension of these important investment incentives should be terminated just as soon as the objectives of the suspension had been accomplished. Their objectives have been accomplished and therefore the incentives should be restored.

On the basis of evidence that we have been observing, analyzing and carefully appraising, we can now state without qualification that the mission assigned to the suspension of the investment credit and accelerated depreciation has been accomplished.

Here is some of this evidence:

<u>In the market for capital goods</u>:

-- New orders for machinery and equipment have, beginning in October, declined steadily, reaching a level in January of this year of 7 percent below September 1966. Moreover, in January shipments actually exceeded orders 17 percent and this was the first month that backlogs actually fell since June 1963.

-- The average rate at which capacity is being utilized in the machinery industry has dropped noticeably to a healthier and more efficient rate. In electrical machinery, for example, it has declined from 97 percent to 91.5 percent.

-- The shortages of skilled labor are not so nearly acute today as they were last summer.

-- And, looking ahead, the recent Survey of Investment Plans for 1967, conducted by the Department of Commerce and the Securities and Exchange Commission shows a modest increase of less than 4 percent. This is within the growing productive capabilities of our machinery industries. It is in sharp contrast to the increases of 16 percent and 17 percent which occurred in 1965 and 1966.

Thus, while demand for capital goods remains at a high, even record level, it now reflects a healthy buoyancy in the capital goods industries and not the excessive, threatening, boom conditions that prevailed last summer.

There is an important result of this development in the area of our balance of payments. During 1965 and the first three quarters of 1966, imports of capital equipment jumped by an average of 13 percent per quarter. In the fourth quarter of 1966 the rise in imports of capital equipment was only 3.9 percent and this in part reflected deliveries on orders placed in earlier quarters. There is an excellent prospect of a levelling off of imports, now that domestic producers can take care of demands.

<u>In the financial and money markets</u>:

-- A dramatic decline in interest rates from the highest levels in 40 years has occurred.

-- Three-month Treasury bills are down one and one-quarter percentage points, from 5.60 percent to 4.35 percent.

-- Ten-year Treasury securities are down about seven-eights of a percentage point.

-- Short-term Federal agency securities are down one and three-eights percentage points.

- -- New corporate Aa bonds are down nearly seven-eights of a point.

- -- New municipal bonds are down two-thirds of a point.

-- The net inflow of funds to savings and loan institutions is now proceeding at a much more healthy rate. In the four months ending January, the inflow was at an annual rate of $8 billion. Last summer the annual rate of inflow was as little as $0.1 billion.

-- Credit availability for homebuilding has improved and mortgage rates have started to come down. In October the seasonally adjusted annual rate of housing starts had sunk to a low of 848 thousand units; in January starts had reached one and a quarter million units (seasonally adjusted, annual rates).

-- Corporate financial demands, while strong, are being accommodated in an orderly manner and yields are down.

- -- Preliminary estimates suggest that for the first quarter of this year corporate issues are running below last year. This contrasts with the first three quarters of 1966 when corporate security offerings were substantially above the year earlier levels.

While the situation has considerably improved in our financial and money markets, I do not want to give the impression that further substantial easing is unwanted or unnecessary. Far from it. There is room for further declines in interest rates, in our own financial markets, and in that of other countries. I hope and expect to see those declines realized, and I expect that credit will continue to become more readily available, particularly for homebuilding.

In the currently improved financial market environment, I believe that restoration of the investment credit is entirely consistent with maintaining good balance in the financial markets in the months ahead, and it is consistent with achieving further improvement in those markets. It will, of course, continue to be necessary for the Federal Government to keep its own demands in the credit markets within measured bounds.

The question naturally arises as to what bearing the termination of the suspension has on the President's recommendation for a surcharge on corporate and individual income taxes.

In this respect, it is necessary to note, first, that the two measures are quite different in design and purpose.

First, the suspension of the investment credit was not a revenue measure and had a specific and limited objective -- to dampen the excessive boom in the market for capital goods. The excessive boom is over, and there is no reason for continuing the suspension.

The surcharge, on the other hand, is an overall across-the-board fiscal measure designed to cope with the economic and budgetary situation as we anticipate it for the latter half of 1967 and throughout 1968. We expect the economy to be in need of overall restraint during that period. We will certainly not want a resumption of monetary strains then either, and this will require that the Government continue to watch its own demands on the credit markets. The surcharge will help achieve both these major objectives.

It is clear that in the 1967 setting buying and holding U.S. Savings Bonds are actions more important to our nation's economic stability than ever before. These bonds not only support our fighting men in Vietnam and our commitment to the defense of freedom throughout the world, but they strengthen our economy at home and guard against the forces of inflation.

Now, more than ever before, it is essential that we finance our debt in the soundest possible way; that we do all we can to place more of the debt in the hands of savers.

You well know that participation in the Savings Bonds program is a measurable and effective means of accomplishing both these objectives, because you -- as Savings Bond volunteers -- have done an outstanding and admirable sales job.

We are giving you what we feel certain is a valuable assist in meeting this challenge: a new, attractive, product. This is the "Freedom Shares," sales of which begin May 1. We have an unmatched sales organization -- all volunteers -- to put this Savings Note and the familiar Savings Bonds into the financial backstops of our Payroll and Bond-A-Month savers.

They include:

-- Mr. George Meany and the Executive Council of the AFL/CIO have enthusiastically endorsed our new "Freedom Shares" product. They are actively engaged in an expanded program to promote the campaign.

-- Other volunteers are to be found in depth throughout the leadership of business and industry. Their hub of endeavor is the U. S. Industrial Payroll Savings Committee ably directed by its Chairman, a Californian -- Dan Haughton, President of the Lockheed Aircraft Corporation.

-- Many others, such as Jim Haight, Chairman of the Board of FMC Corporation, 1966 Chairman; and Reed Hunt, Chairman of the Board of Crown-Zellerbach, our 1965 and 1964 Chairman.

-- Mr. Hornby Wasson, President of Pacific Tel and Tel whose record was 86 percent participation among 90,000 employees -- number one job in the whole Bell System; and Gene Treffethen, Executive Vice President of Kaiser Industries, whose record was among those above the 50 percent mark.

-- The volunteer State Chairmen for Savings Bonds, drawn largely from the field of banking and finance -- men like Harold Stone, our Regional Director, and our State Director, Newton McCarthy.

I have left to the last, because he is the Chairman for this area, mention of Tex Thornton. It is my pleasure to pay tribute here today to his distinguished participation in the effort to increase investment in Savings Bonds. He is the kind of man who makes things go.

With a 1966 sales dollar goal of $192 million, you sold $205 million in the Southern California area -- reaching 107 percent of your quota and marking the first time that your sales results had gone over the $200 million mark in the 11 counties of your area. Your 1966 target for new savers was 62,000. Instead you added 130,000 new savers, more than double your goal. Our country needs these new savers, and these individuals themselves are fortunate indeed in having embarked on a program of systematic savings.

In 1967 you are challenged here in Southern California, by a goal of $244,600,000 Savings Bonds sales -- and of adding 136,500 new payroll savers to your lists. With Tex Thornton calling the signals, I have no doubt you will do it.

Let me close with these remarks by President Johnson, when he announced the new "Freedom Shares" program last month:

> "We can do no less than those who fight and die for our freedoms. Last year, American servicemen bought almost $350 million worth of Savings Bonds -- close to $90 million in the last quarter alone. Battle honors come hard in Vietnam, because the price of honor is often the price of life. Yet, in jungle and hamlet -- on shipboard and airfield -- there is one trophy that every American unit prizes. It is not the enemy's flag. It is the Minute Man Flag that symbolizes 90 percent or better particpation in the Payroll Savings Plan."

F-848

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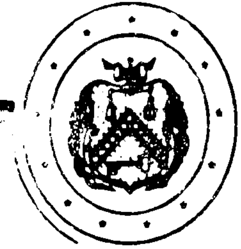
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 15, 1967

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 23,1967, in the amount of $2,305,959,000, as follows:

91-day bills (to maturity date) to be issued March 23, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated December 22,1966, and to mature June 22, 1967, originally issued in the amount of $1,006,055,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 23, 1967, and to mature September 21, 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, March 20, 1967. 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-849

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 23, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 23, 1967. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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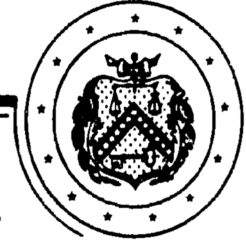
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 16, 1967

IN ANSWER TO INQUIRIES:

In response to requests for comment on the further reduction of the British bank rate, announced today, the U. S. Treasury said that it welcomed this additional move in the direction of lower interest rates, as further evidence of improvement in Britain's international financial position.

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TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
FRIDAY, MARCH 17,1967

F-850

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 March 4, 1967:

Commodity	Period and Quantity		Unit of Quantity	Imports as of March 4, 1967
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	396,497
Whole Milk, fresh or sour ..	Calendar year	3,000,000	Gallon	-
Cattle, 700 lbs. or more each (other than dairy cows)	Jan. 1, 1967 - Mar. 31, 1967	120,000	Head	4,317
Cattle, less than 200 lbs. each	12 mos. from April 1, 1966	200,000	Head	112,462
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,883,313	Pound	Quota filled 1/
Tuna Fish	Calendar year	To be announced	Pound	10,797,877
White or Irish potatoes: Certified seed	12 mos. from Sept. 15, 1966	114,000,000	Pound	Quota filled
Other	12 mos. from Sept. 15, 1966	45,000,000	Pound	Quota filled
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1966 - Oct. 31, 1967	84,000,000	Pieces	Quota filled
Whiskbrooms	Calendar year	1,380,000	Number	1,265,484 2/
Other brooms	Calendar year	2,460,000	Number	1,135,446 2/

1/ Imports for consumption at the quota rate are limited to 6,220,828 pounds during the first 3 months of the calendar year.

2/ Imports as of March 10, 1967.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
FRIDAY, MARCH 17, 1967

F-851

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1967, to March 4, 1967, 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 March 4, 1967
Buttons	510,000	Gross	25,234
Cigars	120,000,000	Number	1,860,690
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	1,943,446
Tobacco	3,900,000	Pound	301,100

IMMEDIATE RELEASE
FRIDAY, MARCH 17, 1967

F-852

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 - March 13, 1967

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	50,487
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	11,241
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 - March 13, 1967

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	31,295,569
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	120,625
1-1/8" or more and under 1-3/8"	4,565,642	4,130,101

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 March 13, 1967	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1966 to March 13, 1967
United Kingdom...........	4,323,457	34,048	1,441,152	34,048
Canada....................	239,690	67,453	-	-
France....................	227,420	31,583	75,807	31,583
India and Pakistan........	69,627	16,058	-	-
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	149,142	1,599,886	65,631

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

FRIDAY, MARCH 17, 1967

F-853

The Bureau of Customs announced today the following preliminary figures on imports entered for consumption under the absolute import quotas provided for in section 12.71, Customs Regulations, for coffee grown in nonmember countries of the International Coffee Organization for 12-month period beginning November 15, 1966.

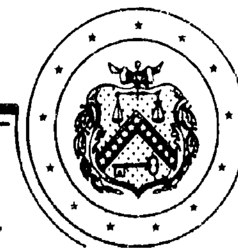
COFFEE
(Green - In pounds)

Country	Established Quota	Total Imports as of Mar. 13, 1967
Bolivia	1,850,800	967,121
Guinea	1,454,200	Quota filled
Liberia	2,511,800	1,535,640
Paraguay	2,644,000	-
Yemen	1,850,800	110,628
Basket 1/	6,610,000	1,529,099

1/ Basket quota allocated to unlisted nonmember countries and to listed nonmember countries after respective quota filled.

NOTE: Honduras and Kenya are now members of the International Coffee Organization. Therefore, Honduran and Kenyan coffee is no longer subject to quota.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 18, 1967

FOR IMMEDIATE RELEASE

RICHARD O. LOENGARD, JR. RECEIVES TREASURY AWARD

Richard O. Loengard, Jr., who is leaving the Treasury Department today to resume private law practice as a partner with Strasser, Spiegelberg, Fried, and Frank, of New York City, has been awarded the Department's Meritorious Service Award by Secretary of the Treasury, Henry H. Fowler.

During the past 2½ years Mr. Leongard has been Special Assistant for International Tax Affairs to Stanley S. Surrey, Assistant Secretary of the Treasury for Tax Policy. Mr. Loengard has also been Deputy Tax Legislative Counsel for International Tax Affairs in the Office of the Tax Legislative Counsel.

Mr. Loengard received his award from Assistant Secretary Surrey, who cited Mr. Loengard's work in helping to formulate the Treasury Department's legislative proposals leading to the Foreign Investors Tax Act of 1966, his work on Interest Equalization Tax legislation, and his participation in negotiations between the United States the United Kingdom, and France on international income tax treaties.

The award citation said:

> "He.... was able with perceptive insight and remarkable patience, to keep coordinated the many strands of concept and doctrine that ran through those activities."

Mr. Loengard, 35, attended Phillips Exeter Academy, completed undergraduate work at Harvard College in 1953, and received a law degree from Harvard Law School in 1956.

He is a member of the American Bar Association.

Mr. Loengard, a native of New York City, is married to the former Janet Sara Senderowitz, of Allentown, Pennsylvania. They have a daughter, Maranda Cecilia.

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STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SENATE FINANCE COMMITTEE
ON H. R. 6950
MONDAY, MARCH 20, 1967, 10 A.M., EST

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss the recommendation for reinstating the 7 percent investment credit and accelerated depreciation presented in the President's Message of March 9, 1967 and to express the Treasury's views on the bill before you, H. R. 6950.

I am very appreciative of the promptness with which you and the House Ways and Means Committee arranged to hold hearings on this important matter. The Congress is once again demonstrating its ability to act speedily and responsibly to meet the requirements of sound economic policy.

I favor the immediate restoration of the investment credit and accelerated depreciation. As members of this Committee are well aware, I have always been a strong exponent of the investment credit. Since its inception in 1962, the credit has unquestionably made a substantial contribution to promoting high levels of investment and economic growth, and to the generally remarkable performance of our economy in recent years.

The investment tax credit is an essential, and should be an enduring, part of our tax system.

As members of this Committee also know, we came to the decision last September that suspension was an appropriate measure only after very careful consideration. I made clear in my testimony before this Committee, and elsewhere, that I regarded the suspension bill as a temporary measure. By providing for automatic restoration of the credit and accelerated depreciation on January 1, 1968, the legislation itself emphasized its temporary nature. However, it was never my view that the January 1 date was in any way binding or immutable as a termination date. Rather, it was my full expectation that the suspension period would actually be terminated whenever economic, or other conditions made such action appropriate. As I stated before the House Ways and Means Committee last September in answer to a question from Congresswoman Griffiths:

> "I think the expression of the date /i.e., Jan. 1, 1968/ is really an expression of the intent and purpose of both the President and the Congress to renew the credit when the economic circumstances and surroundings are more propitious. I don't think there is anything magic about the January 1, 1968, date or the 16 months' period. It is simply a planning period."

And again, as I stated before this Committee last October in response to a question from Senator Williams:

> "The Administration will be alert to any change in the situation and will be prepared to recommend terminating the suspension period before January 1, 1968, if a change in circumstances makes that at all possible, and I would hope that the Congress would, in turn, be willing to entertain such a recommendation."

This view that it would be desirable, indeed obligatory, to reinstate the credit as soon as conditions warrant it, was expressed both by the President and the Congress. In his statement upon signing the investment credit suspension the President said:

> "If . . . any earlier reinstatement would be appropriate, I shall recommend prompt legislative action to accomplish that result."

The reports to the Congress of both the House Ways and Means Committee and the Senate Finance Committee stated:

> "If military requirements in southeast Asia should decrease before January 1, 1968, or if for some other reason it should become apparent that suspension of the investment credit and suspension of the use of the accelerated depreciation methods with respect to buildings are no longer necessary to restrain inflation, the Congress can promptly terminate the suspensions. The Administration has also indicated that it would recommend terminating the suspension period before January 1, 1968, under such conditions."

In brief, then, the Administration as well as the Congress fully intended that the suspension of this important investment incentive should be terminated as soon as it became apparent that the conditions giving rise to the suspension no longer prevailed.

It is now clear that those conditions necessitating suspension are no longer prevalent and the investment credit should be restored.

The Reason for the Suspension

In my statement before you last October, I emphasized that the suspension of the investment credit was not a revenue-producing measure. It was an economic measure, with a limited, well defined purpose: namely, to relieve the excessive pressures that were clearly observable in the capital goods market, which were compounded of enlarged military demands superimposed on a vigorous expansion of civilian business investment. In turn, these pressures were causing strains in the financial and money markets resulting in the highest interest rates in 40 years, and depriving the homebuilding industry of needed credit availability. The suspension legislation was not

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intended as an overall, across-the-board, measure of fiscal restraint. Its focus was specifically concerned with curbing the excessive boom in the capital goods sector and alleviating credit tightness. It was to do this by inducing business firms to postpone the placing of orders for -- or starting the construction of -- machinery and equipment, and commercial and industrial building.

Suspension Law no Longer Justified

On the basis of the economic evidence that is available to us, which I can assure you we have prudently and carefully appraised, we can now affirm that the special conditions giving rise to the suspension legislation no longer exist, and therefore the investment credit and accelerated depreciation should be restored.

Here is some of this evidence:

In the market for capital goods:

-- New orders for machinery and equipment have, beginning in October, declined steadily, reaching a level in January of this year of 7 percent below September 1966. Moreover, in January shipments actually exceeded orders and the order backlog fell for the first time since 1963.

-- The average rate at which capacity is being utilized in the machinery industry has dropped noticeably to a healthier and more efficient rate. In electrical machinery, for example, it has declined from 97 percent to 91.5 percent.

-- The shortages of skilled labor are not so nearly acute today as they were last summer.

-- And, looking ahead, the recent Survey of Investment Plans for 1967, conducted by the Department of Commerce and the Securities and Exchange Commission shows a modest increase of less than 4 percent. This is within the growing productive capabilities of our machinery industries. It is in sharp contrast to the increases of 16 percent and 17 percent which occurred in 1965 and 1966.

Thus, while demand for capital goods remains at a high, even record level, it now reflects a healthy buoyancy in the capital goods industries and not the excessive, threatening, boom conditions that prevailed last summer.

One important result of these developments is seen in the area of our <u>balance of payments</u>. During 1965 and the first three quarters of 1966, imports of capital equipment jumped by an average of 13 percent per quarter. In the fourth quarter of 1966 the rise in imports of capital equipment was only 3.9 percent and this in part reflected deliveries on orders placed in earlier quarters. The current prospect of a levelling off of imports, now that domestic producers can take care of demands, is excellent.

<u>In the financial and money markets</u>:

-- A dramatic decline in interest rates from the highest levels in 40 years has occurred.

--- Three-month Treasury bills are down one and three-eighths points, from 5.60 to 4.24.

--- Ten-year Treasury securities are down more than one full point.

--- Short-term Federal agency securities are down one and seven-eighths points.

--- New corporate Aa bonds are down three-fourths of a point.

--- New municipal bonds are down seven-tenths of a point.

-- The net inflow of funds to savings and loan institutions is now proceeding at a much more healthy rate. In the four months ending January, the inflow was at an adjusted annual rate of $8 billion. Last summer the annual rate of inflow was as little as $0.1 billion.

-- Credit availability for homebuilding has improved and mortgage rates have started to come down. In October the seasonally adjusted annual rate of private housing starts had sunk to a low of 848 thousand units; in the first two months of this year starts (seasonally adjusted, annual rates) averaged nearly one and one-fifth million units.

-- Corporate financial demands, while strong, are being accommodated in an orderly manner and yields are down.

--- Preliminary estimates suggest that for the first quarter of this year corporate issues are running below last year. This contrasts with the first three quarters of 1966 when corporate security offerings were substantially above year earlier levels.

While the situation has considerably improved in our financial and money markets, I do not want to give the impression that further substantial easing is unwanted or unnecessary. Far from it. There is room for further declines in interest rates, in our own financial markets, and in the financial markets of other countries. Particularly, there is room for the recent welcome declines in rates on short-term Treasury issues to spread to other types of securities and borrowing rates. I hope and expect to see those declines realized, and I expect that credit will continue to become more readily available, especially for homebuilding.

In the currently improved financial market environment, I believe that restoration of the investment credit is entirely consistent with maintaining sound balance in the financial markets in the months ahead, and it is consistent with achieving further improvement in those markets. There is the important proviso, however, that the Federal Government's own demands in the credit markets must be kept within measured bounds.

In view, then, of the moderate and sustainable pace at which investment is now proceeding, and in view of the clear trend toward ease in our financial and money markets,

continued suspension of the investment credit is no longer appropriate. It is incumbent upon us, therefore, to restore the credit to the normal, long-run role it is designed to fulfill in the tax structure.

Relation to the Economic Outlook and the Surcharge

The termination of the suspension of the investment credit, of course, restores some incentive to investment that was inoperative during the suspension period. I do not, however, consider that such action is being taken for the purpose of stimulating the economy. Rather, I view it as simply restoring to its normal, functioning role what is essentially an integral part of the permanent tax structure, which, whenever reimposed would have a stimulating effect.

We are, of course, undergoing some adjustment downward from the hectic pace of advance that characterized the economy during much of 1966. This was only to be expected, and it was expected in the analyses and fiscal program presented by the Administration earlier this year. But it is also my expectation that due to factors such as a levelling of inventory investment at a sustainable rate, a rising level of

consumer buying and recovery in homebuilding -- reflecting the basically expansionary impact of current fiscal and monetary policy -- the pace of activity is expected to step up by the second half of 1967. Nevertheless, we will continue our close watch on economic developments just as we have been doing right along.

The question naturally arises as to what bearing the termination of the suspension has on the President's recommendation for a surcharge on corporate and individual income taxes.

The answer essentially is that the two measures are quite different in design and purpose.

As I have already indicated, the suspension of the investment credit was not a revenue measure. It had a specific and limited objective -- to dampen the excessive boom being experienced last year in the market for capital goods. The excessive boom is over, and there is no reason for continuing the suspension.

The surcharge, on the other hand, is an overall across-the-board fiscal measure designed to cope with the economic and budgetary situation and outlook as we anticipate it for the latter part of 1967 and throughout 1968, assuming the implementation of the President's other recommendations and the continuation of hostilities on their current scale in southeast Asia. We will want to reduce our budgetary deficits in fiscal 1968 from the projected levels of fiscal 1967 if the economic outlook permits. We will certainly not want to risk a resumption of monetary strains and a return to higher interest rates then either, and this will require that the Government's own demands on the credit markets be kept in bounds. The surcharge will help achieve these objectives.

Explanation of the Bill

The suspension statute adopted by Congress last fall generally denies the investment credit for property ordered, acquired, or placed under construction during the suspension period. Also, the statute denies use of the forms of accelerated depreciation introduced into the tax law in 1954 -- primarily,

the double declining balance and sum of the years-digits methods -- for real property, not qualifying for the investment credit, if the construction of the property began during that period. The statute defines the suspension period as the period beginning on October 10, 1966, and ending on December 31, 1967. The law prescribes 11 exceptions from these general rules, allowing the investment credit or accelerated depreciation to property ordered, acquired, or constructed during the suspension period if various conditions are met. It also permits each taxpayer a $20,000 exemption for investment credit purposes and a $50,000 exemption for accelerated depreciation purposes.

Section 1 of H. R. 6950 amends the definition of the term "suspension period" to provide that the period terminates on March 9, 1967, rather than December 31, 1967. As a consequence, property ordered, acquired, or placed under construction after March 9 would qualify for the investment credit or 1954 Code accelerated depreciation under the usual rules governing those tax benefits.

Section 2 of the bill as passed by the House makes two further changes in the suspension statute enacted last fall. First, for the original rule disqualifying property altogether for the investment credit or accelerated depreciation if construction was begun during the suspension period, this section would substitute a rule denying the credit or accelerated depreciation only for that portion of the basis of property which is attributable to construction during the suspension period. For example, where a taxpayer began construction of a building during the suspension period but did not complete it during the period, he would be permitted to elect the 1954 Code methods of accelerated depreciation for the portion of the basis of the building attributable to construction performed after the close of the suspension period. Secondly -- and of much wider application -- section 2 would delete the provisions of the original suspension statute which disqualified property for the investment credit or accelerated depreciation by reason of orders placed during the suspension period.

It would allow a full credit or accelerated depreciation for all property delivered after the suspension period regardless of when the property was ordered.

The bill, thus, does not restore the investment credit on the terms provided by the original suspension legislation. Rather, it retroactively grants the credit to many taxpayers who would, because of their involvement in stipulated activities during the suspension period, be ineligible for the credit under the existing law. This is not in accord with the President's recommendation, which called simply for early termination of suspension but no other change in the terms of the suspension law. In not following the President's recommendation, the bill seems to me to cause inequitable treatment of those taxpayers who did refrain from placing orders or starting projects during the suspension period. They have lost their place in their suppliers' line and have foregone profits from the early use of new equipment. I would prefer a bill which would simply carry out the President's

recommendation restoring the investment credit on the terms provided by the original suspension legislation.

Conclusion

In conclusion, I believe delay at this stage may produce uncertainties that would only be harmful to the economy. Therefore, I emphasize the need for prompt action on terminating the suspension.

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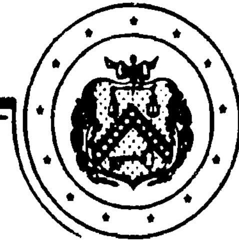
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, March 20, 1967.

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 December 22, 1966, d the other series to be dated March 23, 1967, which were offered on March 15, 1967, 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 MPETITIVE BIDS:	91-day Treasury bills maturing June 22, 1967		182-day Treasury bills maturing September 21, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	98.971	4.071%	97.988	3.980%
Low	98.959	4.118%	97.968	4.019%
Average	98.963	4.102% 1/	97.975	4.005% 1/

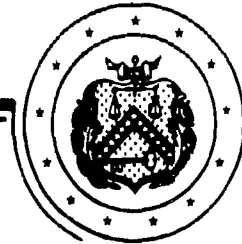
42% of the amount of 91-day bills bid for at the low price was accepted
57% of the amount of 182-day bills bid for at the low price was accepted

AL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

istrict	Applied For	Accepted	Applied For	Accepted
oston	$ 23,134,000	$ 12,634,000	$ 13,416,000	$ 3,416,000
ew York	1,690,851,000	894,190,000	1,576,585,000	814,435,000
hiladelphia	25,948,000	13,848,000	14,793,000	4,943,000
leveland	39,745,000	30,877,000	13,029,000	11,437,000
ichmond	18,046,000	12,046,000	10,333,000	4,333,000
tlanta	60,918,000	33,065,000	33,049,000	11,372,000
hicago	331,013,000	129,557,000	294,444,000	72,507,000
t. Louis	54,148,000	41,568,000	24,579,000	11,929,000
inneapolis	28,739,000	21,485,000	10,183,000	6,883,000
nsas City	35,973,000	33,833,000	10,500,000	10,450,000
llas	23,258,000	17,458,000	11,852,000	6,809,000
n Francisco	163,142,000	59,603,000	195,276,000	41,616,000
TOTALS	$2,494,915,000	$1,300,164,000 a/	$2,208,039,000	$1,000,130,000 b/

Includes $292,798,000 noncompetitive tenders accepted at the average price of 98.963
Includes $112,715,000 noncompetitive tenders accepted at the average price of 97.975
These rates are on a bank discount basis. The equivalent coupon issue yields are 4.21% for the 91-day bills, and 4.16% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 20, 1967

FOR IMMEDIATE RELEASE

The Treasury Department's Cost Reduction-Management Improvement Program is expected to yield an estimated record saving of over $130 million for the 12 months ending June 30, 1967.

The estimated total of $130.5 million in savings, and avoided costs, expected for this fiscal year is described in detail in a semiannual cost reduction progress report which the Department has submitted to the President.

The savings estimates include $50.5 million from improvements in the internal operating functions of the Department, and $80 million from improvements in fiscal operations. The $80 million benefit from improvements in fiscal operations represents cost avoidance derived mainly from the effects of earlier availability and steadier flow of funds resulting from accelerated collection and deposit of revenue liabilities of businesses and individuals.

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F-856

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT THE
NATIONAL INSTALMENT CREDIT CONFERENCE
OF THE AMERICAN BANKERS ASSOCIATION
CONRAD HILTON HOTEL, CHICAGO, ILLINOIS
WEDNESDAY, MARCH 22, 1967, 10:15 A.M., CST

(Delivered by Edward P. Snyder, Director,
Office of Debt Analysis)

THE GUARANTEED STUDENT LOAN PROGRAM

How to finance a college education for their children is a very common problem of concern to growing millions of American families. I am sure that many of you here share a personal, practical interest in this subject.

I also have a strong feeling, if I can persuade you that the allocation of some of the resources of your banks to the guaranteed student loan program makes sense, that we will jointly have made a significant contribution to a solution to a basic problem in our society.

In inviting me to address this National Instalment Credit Conference, Charly Walker said two things:

-- First, this is a highly important group of bankers from an operational viewpoint for the guaranteed student loan program.

-- Second, it is probably the most outspoken group of bankers as regards the unprofitability of student loans under the present program and in existing money markets.

This gathering, therefore, provides a peculiarly appropriate forum for a discussion of the program, and for some comments on what we in Government are prepared to do to see that the program will work, and why we believe this is so important.

As a Treasury official, I have most frequently addressed my remarks to the great subjects of the United States' posture in its balance of payments, its economic outlook, its system of taxation, and its monetary policy. These are inextricably tied up with our level of education.

Compared with the rest of the world, our most significant national advantage probably lies in our educational level -- the so-called technological and management gap which so disturbs our competitors around the world.

Education is closely allied with our economic outlook. As the Council of Economic Advisers pointed out in its recent annual report, some studies indicate that over one-fifth of our economic growth in the past 3 or 4 decades can be directly attributed to education, and perhaps another fifth can be attributed to the general advance of knowledge.

If education lifts us all to a higher level of real income, some of the most basic assumptions of tax policy may have to be re-examined.

Finally, a highly affluent society with a high level of education is surely a society that will use to the fullest the credit resources that are available in this nation.

In emphasizing these economic consequences, I am well aware that the most significant end-product of education is a rise in our level of civilization -- an increase in our capacities to elevate the quality of our lives.

So, in speaking on a subject which may seem somewhat out of the mainstream of the usual Treasury interest, I am addressing a basic issue affecting our current and potential national economic power.

I also am speaking about a subject that directly involves my current responsibilities and yours.

The stakes are big and our goal is big: to assure that every student accepted for enrollment into college will be able to meet the costs of his college education.

This will take a concerted effort by all of us -- and I believe that the guaranteed student loan program is a fundamental part of this program.

To achieve our goal -- and by 1972 we are aiming to have some $6.5 billion in loans outstanding to over 2 million student borrowers -- I know that we will have to overcome many obstacles. As the President said, however:

> "If administrative changes in the program are necessary, we will make them. If any amendments to the legislation are in order, we will submit appropriate recommendations to the Congress."

The loans themselves, however, must be made by the banks and other lending institutions of this country, so in a very basic sense it will be up to you whether this program succeeds.

The Need We Face

We as Americans have traditionally been imbued with a desire to give our children the best education available.

Our whole history as a nation, from the Northwest Ordinance of 1787 down to the Higher Education Act of 1965, has reflected our continuing determination to educate our children the best way we know how. But the time span from the end of the Second World War to date has marked a dramatic change in our attitudes toward higher education.

Just a few figures will illustrate the remarkable change in recent years. In 1930, total expenditures on a higher education in this country were about $630 million. A few years after the Second World War, the figure was more than four times greater -- about $2.7 billion. In the current year, 1967, the expenditures are expected to reach a level of approximately $16.8 billion -- almost 30 times the 1930 level.

In the decade from 1955 to 1965, the total enrollment in our institutions of higher education increased by just over 3 million students. In the next decade we are anticipating an even larger increase -- 3-3/4 million students -- and this is probably on the conservative side.

How do we meet this problem?

How do we, as individual parents, raise the money to meet the expenses of college -- expenses that have risen steeply in recent years and show little or no sign of leveling off in the future?

How do we, as citizens, allocate our resources to pay the teachers and to build the classrooms and laboratories and housing needed to accommodate this surge of young Americans into the colleges and universities?

The two questions cannot be easily divided. The need to finance the required growth of the institutions will almost inevitably be reflected in higher costs to the students and their families. I do not intend by this comment to take sides in the argument over free State tuition. I merely regard it as prudent to assume that at least a portion of the cost of enlarging and improving our colleges will be borne by the current crop of students. I might add that if we are to preserve our <u>private</u> institutions of higher learning -- and I am sure all of us want to -- this trend toward higher costs then surely becomes a problem we inevitably must confront.

If we are faced with the problem of ever-higher costs when American families currently are groaning under what they consider to be an extremely heavy burden, then what is the answer? There are several alternative courses of action -- one of which is currently on our statute books. Let me list for you some of the proposals that are circulating in the public domain, with my own personal comments on their utility. Then I should like to discuss with you the potentials of the guaranteed student loan legislation.

The Tax Credit Proposal

One of the more politically attractive proposals currently being discussed is a plan to give a tax credit to those families who are incurring the costs of higher education.

The Senator from Connecticut, Mr. Ribicoff, has advocated just such a proposal. Congressman Ford, has also thrown his support behind this approach.

I must say that the first reaction of most people to the idea of a tax credit for the expenses of their children in college, is enthusiasm. But this enthusiasm is tempered by a closer look.

Senator Ribicoff's proposal would allow the parents of a college student a maximum of $325 each year as a credit against taxes. The credit would be less if the student's tuition and books totaled less than $1500. And of course if the family had so little income that they owed no tax, they would get no benefit at all from the credit.

This plan would cost the nation roughly $1.5 billion the first year (according to Treasury estimates) and up to $2 billion a year within a few years. These are not small sums of money. But laying aside the parochial Treasury concern about spending such large sums, Senator Ribicoff's proposal seems to have two basic defects:

First, it operates as a sort of "reverse" scholarship -- that is, it gives the highest reward to the families with the highest incomes sending their children to the most expensive schools. I know of no college which would give its aid funds in such an upside-down fashion.

Second, in spite of the substantial cost to the Federal Government, $325 per student is not nearly enough to meet the current and the prospective burden that faces so many American families.

Senator Ribicoff argues that his plan is designed to provide money for the institutions, through higher tuition, as well as to ease the burden on families. I sympathize and concur in this dual objective. However, increased tuition may merely widen the educational opportunity gap between families of moderate means and those with ample means. On balance, I think there are <u>better</u> means of using our Federal resources in the area of financing higher education.

<u>The Loan Guarantee Plan</u>

The program which, to my mind, currently offers the United States the greatest "bang for a buck" is the guaranteed student loan program enacted into law in the Higher Education Act of 1965.

The program is relatively new; it has many bugs as you know that must still be worked out; but in my opinion it offers great promise to millions of American families.

This program starts from a premise that we have been very slow to accept in this nation -- that an investment in education is as sound, if not sounder, than investment in a house or in a car.

It now is an accepted fact that a college education is an income-producing asset. For that reason, our traditional reluctance to go into debt to finance an education seems a bit peculiar and unreasonable. However, as the costs of education continue to spiral, the American people, in their pragmatic way, are finding for themselves that perhaps it does make sense to borrow to finance the education of their children. Perhaps they have begun to borrow for education simply because they have found it impossible to meet these costs out of current income or current savings; but it is my personal opinion that it is an eminently sensible decision.

How does the guaranteed loan program work? In principle, it really is quite simple. It merely extends into this area the concept of a government guarantee to back up a loan made by a private financial institution.

I believe that the potential in the area of education is as promising as it has proved to be in the area of housing.

Let me trace through the idea: Any American boy or girl who can get admitted to a college should be able to go to this local commercial bank, savings and loan association, mutual savings bank, or credit union to submit a loan application. The lending institution is willing to make the loan, the State student loan guarantee agency then will guarantee the loan up to $1,000 per year (or in some states up to $1500 per year).

Repayment of the loan will begin 9 to 12 months after the student leaves college or graduate school. If his family's "adjusted family income" is $15,000 or less, while the student is in school the government will pay the interest. When repayment begins, the interest rate to the student runs at 3 percent if his family's income is below the specified level, with the government paying the balance. If the family income is above that level, the student pays the full 6 percent.

Despite the complete and enthusiastic cooperation of the American Bankers Association, the two savings and loan association leagues, the Association of Mutual Savings and Banks, and the credit unions' association (CUNA International), the program has had a difficult beginning.

After it was enacted into law in the fall of 1965, it took the Office of Education about 6 months to really get started.

Many states had to enact enabling legislation and state legislatures did not rush to appropriate their share of the guarantee funds with the enthusiasm that we might have expected.

Paper work was another complicating factor -- almost inevitable in any new government program. But the troubles largely can be traced back to the "tight money", which began to be evident in April last year. Tight money made life extremely difficult for the savings and loans and the mutual savings banks, and, to a lesser degree, for the credit unions and the commercial banks. It made most financial institutions think twice about committing themselves to new and untried loan programs. Lenders also discovered that the costs of getting these loans on the books were more than they had anticipated.

All of these difficulties, with the exception of tight money, are almost inevitable with any new program. Despite them, we still succeeded in the Fall semester of 1966 in getting out loans totaling $173 million to nearly 211,000 students. For the full 1966-1967 year, our original target was loans to 962,000 students, totaling $700 million. At the moment, we are guessing that we will actually hit a level of 300-350,000 loans totaling $250-300 million. All in all, this is not a bad beginning for a first year effort under adverse conditions.

But it is not good enough. The need is now. Based on the results in four states with loan standing programs, the demand is close to our estimates and it appears many potential borrowers in most parts of the country are not yet able to find loans.

We had been aware that the program was not developing as rapidly as we had hoped it would, but I think Charls Walker and the American Bankers Association deserve a lot of credit for coming to us to tell us the reasons for the difficulties, as they saw them. Their presentation persuaded us that we had to look into the way in which the program is operating to find ways to simplify and streamline the paper work and to assure maximum lender participation under changing market conditions. On January 23, with the approval of Secretary Gardner and Secretary Fowler, I put together a Task Force composed of the Treasury, the Office of Education, and the Bureau of the Budget, to see what we could do to move the program ahead.

The Task Force met with commercial bankers, mutual savings bankers, and representatives of other financial institutions; it looked closely and conscientiously at administrative costs, paper work, pooling of resources, the creation of a secondary market, improvement in State participation, and -- perhaps most important -- from your view point -- what can be and should be done to assure that lenders will be able approximately to cover their costs, including the cost of money, so that guaranteed student loans will be reasonably competitive with other loans, as was the intention when the Higher Education Act of 1965 was enacted. With regard to lender returns, the Task Force focused on three alternatives.

First, the proposal that interest income from student loans be exempted from Federal income taxes. From your view point, this is an attractive alternative; from our point of view, however, it has a number of serious drawbacks. We hope, for example, to bring into this program other lending institutions in addition to commercial banks. Tax exemption would not provide them the same incentive to participate.

Second, the possibility of increasing the interest rate in the program. This would mean legislation to permit the interest rate to be changed from time to time in accordance with changing market conditions. From your point of view, this alternative could result in conflicts with State usury laws. From our point of view, the added cost -- if it were paid by the Federal Government -- would be spread over the whole term of the loan.

Third, the payment of placement fees. Under this proposal you would receive some compensation at the time you incurred the cost of putting a loan on your books. On the other hand, the first year budgetary costs would be somewhat larger than under the second alternative. The Office of Education has also indicated that it would like to see a part of these fees paid at the time the loan is converted to a payment status. This would be to encourage prompt reporting of the changes in status and the reduction in the interest benefit payable by the Federal Government.

I should also mention another point. The guaranteed loans under this program are eligible as collateral for Treasury Tax and Loan Accounts. Their use for this purpose should give you somewhat more flexibility in the management of your resources.

The Task Force's recommendations are now going forward to be reviewed by Secretary Gardner, Secretary Fowler, the Budget Director, Mr. Schultze, and Chairman Ackley of the Council of Economic Advisers. We are all aware that time is of the essence. There are only three months remaining until the end of June. Before we know it the 1967-1968 school year will be at hand and students throughout the country

will be seeking guaranteed student loans in larger volume than ever before. This means that we cannot delay taking the actions which will affect the program for the 1967-1968 schoolyear. There is time enough, but not too much time.

The college students of today will be your best customers tomorrow. This should be reason enough for you to want to participate as fully as possible. Our interest in the success of this program is also clear.

(1) This program unquestionably gives us the greatest <u>leverage</u> in the use of the financial resources of the United States. A tax credit plan providing a maximum benefit of $325 per family would cost us a billion and a half dollars a third year. This loan program, if it progresses as we think it can, could make 6-1/2 million loans totaling $6.7 billion available at an annual interest subsidy cost to the Federal Government of only a fifth that amount.

(2) Through loans of as much as $1,000 to $1,500 a student, this program offers meaningful financial assistance. In fact, if it gets under way as I think it will, and if college costs increase as I predict, these limits may have to be raised.

(3) The program is intimately involved with all sectors of the financial community, the academic community, and State government. To many, this spells chaos, cumbersome operations, and endless argumentation. I do <u>not</u> look at it that way. There is a lot of arguing and negotiation ahead before we hammer out a completely satisfactory program, but this is precisely the sort of "creative federalism" that President Johnson has continually emphasized. For the price of some difficulties to start, in the long run the broad-based support that will be generated will pay magnificant dividends in the interests of all of us.

If history is any indicator, the problem of financing the costs of higher education, both the costs to students and the costs to the institutions, <u>will</u> be met -- no matter what the cost may be, and no matter what party controls our political destiny. I would recommend to you the study of the alternatives. I would hope that you would agree with me that the guaranteed loan program provides the most promising solution currently available ~~to meet the~~ problem of financial assistance to the student.

I believe that we are getting much closer to our goal of being able to say to every American boy and girl, "If you can get admitted to a college, the financial resources that you need will be available." Implementation of this program should make this promise a reality. It should make the financial burden of education a tolerable burden for American families. It should provide at least part of the financial basis that American colleges and universities now need and will need. And, finally, it should enable us to reach into the ghettos and the pockets of rural poverty, to draw out and to educate those disadvantaged Americans to whom a higher education a few years ago was literally unthinkable.

I have confidence that the American banking industry, joined in a cooperative effort with other lending institutions, the States and private guarantee agencies, and with the Federal Government will help us solve a problem that involves one of the fundamental aspirations of millions of American families.

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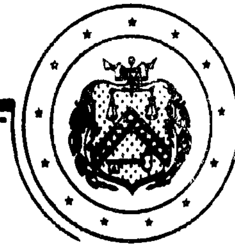
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 21, 1967

FOR IMMEDIATE RELEASE

Secretary of the Treasury Henry H. Fowler today sent the following letter to Senator George A. Smathers. Copies of the letter were also sent to other members of the Senate Finance Committee.

Attachment

F-857

COPY

March 21, 1967

Dear Senator Smathers:

My purpose in writing this letter is to make quite clear my position on the restoration of the investment credit and the House bill, H.R. 6950, now before the Senate Finance Committee. I believe it is appropriate for me to do so at this time in the light of the events and discussion bearing on the question of restoring the credit which have occurred since the President's recommendation to the Congress on March 9, 1967.

There are two paramount concerns involved in the restoration of the investment credit: one is to assure restoration of the investment credit to its long-run functioning role in our tax structure, now that suspension has served its purpose, which the Congress and the Administration assumed the obligation to do when enacting the suspension legislation. The other major concern is to protect revenues and the budgetary position of the Federal Government.

Consistent with these overriding concerns I, therefore, strongly believe that the investment credit and accelerated depreciation should be fully restored as of March 10, 1967. No retroactive change or modification, however, should be made with respect to the rules provided in the suspension legislation governing eligibility for the investment credit for property ordered, acquired or placed under construction during the period October 10, 1966, through March 9, 1967.

With regard to the provision for raising the limit on the use of the investment credit from the present 25 percent of tax liability to 50 percent, I believe this liberalizing provision should not go into effect until January 1, 1968.

COPY

The revenue loss from this approach would be considerably less than that involved in H.R. 6950. For the fiscal years 1967 and 1968 together, the loss would amount to $605 million compared to a loss of $1.28 billion under H.R. 6950. The difference between the two losses, amounting to $675 million, is attributable to two factors: the granting of the credit to property ordered but not delivered during the suspension period, which accounts for $395 million; and the application of the liberalized ceiling on March 10, 1967 rather than January 1, 1968, which accounts for the remaining $280 million.

An even greater loss, amounting to $1.53 billion would be involved in the proposal, advocated by some, to completely roll back the suspension to October 10, 1966, and also make the ceiling liberalization effective on that date.

As you know, the projected deficit in the administrative budget for Fiscal 1967 is $9.7 billion and for Fiscal 1968 $8.1 billion, assuming the enactment of the six percent surtax income tax on individuals and corporations proposed by the President. For Congress to carry out the obligation undertaken at the time of the enactment of the suspension of the investment credit, namely, to restore it when economic circumstances make that appropriate, will add an additional $605 million to the deficits for these two years or require some adjustment upward in the proposed surtaxes. This additional cost is inescapable as a price we have to pay for restoring the credit in timely fashion to its place as a part of our permanent tax structure. However, there is no need in equity or for any other reason, from the standpoint of the Treasury, for Congress to change the rules it established for eligibility for the credit when the suspension period was over which are specifically prescribed in the suspension Act of last year. Thus, there is no need for any further revenue loss in connection with this legislation. I cannot stand by lightly and watch these budget deficits increased merely to give a windfall to taxpayers who had no basis for assuming they would get the investment credit on orders placed during the suspension period. Neither do I think it is necessary or obligatory to make available the liberalized limit on the credit from 25 percent from taxes to 50 percent before January 1, 1968.

Following the Administration's proposals on these two points, as compared with the House bill approach, will save the Government $675 million in these fiscal years in which we are facing these sizable deficits; as compared to a proposal now being considered in the Committee to lift the suspension back to October 10, 1966, the date of the original enactment, the difference is nearly $1 billion.

The course of fiscal responsibility under these circumstances is very clear. I strongly urge the Committee to take the necessary action to implement the approach I have here outlined and thus minimize either the need to increase the national debt, finance a larger deficit by going to the public markets for money or laying additional tax burdens through the income tax route.

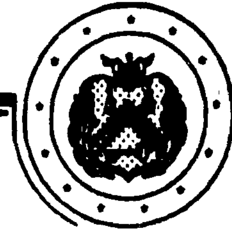
Sincerely yours,

(Signed) Henry H. Fowler

Henry H. Fowler

The Honorable
George A. Smathers
United States Senate
Washington, D. C. 20510

TREASURY DEPARTMENT



WASHINGTON, D.C.
March 22, 1967

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 March 31,1967, in the amount of $1,400,808,000, as follows:

275-day bills (to maturity date) to be issued March 31, 1967, in the amount of $ 500,000,000, or thereabouts, representing an additional amount of bills dated December 31,1966, and to mature December 31,1967, originally issued in the amount of $901,030,000, the additional and original bills to be freely interchangeable.

366-day bills, for $900,000,000, or thereabouts, to be dated March 31, 1967, and to mature March 31, 1968.

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, Tuesday, March 28, 1967. 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 366 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

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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 March 31, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 31,1967. 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.

TREASURY DEPARTMENT
Washington

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SENATE SMALL BUSINESS COMMITTEE
WEDNESDAY, MARCH 22, 1967, 10:00 A. M.

I am very pleased to appear at these important hearings. The efforts of your Committee to learn more about the present position of small business, and its outlook, and how it can be kept vigorous and dynamic deserve the fullest support throughout the Government and the public.

Prosperous and growing small business enterprises are vital to the maintenance of a strong, free and competitive economy. I can assure this committee that this basic premise as an important factor in all the economic policy actions of the Administration.

The Small Business Stake in an Expanding Economy

While there are in existence a number of programs designed to promote small business -- and others being proposed -- the primary influence upon small business is the overall condition of the economy. Swings in aggregate economic activity tend to have more than a proportionate effect on smaller enterprises. This has been evident in past recessions. For example:

During the 1954 recession, pre-tax earnings of the smallest manufacturing corporations (those with assets under $1 million) declined by nearly 29 percent, while earnings of larger corporations dropped by 12 percent. Again, in the 1958 recession, earnings of the smallest corporations declined by 31 percent, compared with 19 percent for larger corporations. This effect is seen even during the relatively mild 1960 recession, when earnings of the small corporations fell 22 percent, compared with 7 percent for the larger corporations.

It is of special importance to a healthy small business community in our economy that this phenomenon operates also in the other, and positive sense: smaller enterprises tend to make greater gains in a peirod of general prosperity than do the larger businesses.

During the six uninterrupted years of economic expansion since 1960 we have seen remarkable and widely shared gains in economic progress and welfare in the United States. Small business has participated greatly in this prosperity -- whether measured by growth in number of firms, increases in number of firms, increases in absolute value of sales and profits, rates of return on capital or the share of total purchases and contract awards by the Federal Government. For example:

-- The earnings of the smallest manufacturers over the past six years increased at a more rapid rate than those of larger manufacturing corporations.

For the first three quarters of 1966, profits before taxes of these corporations more than tripled the level of six years earlier, compared with the larger corporations whose profits doubled over the same period.

-- After-tax earnings of small corporations rose significantly -- both absolutely and in comparison with larger corporations.

The relatively superior performance of small corporations in these years, in part, may reflect the ability of such companies to expand operations without commensurate increases in costs. Certain special tax advantages I will discuss later, also helped to provide a relatively greater increase in after-tax earnings of small corporations.

All these factors contributed to a significant trend rise in before- and after-tax rates of return on capital to small business. During the third quarter of 1966, pre-tax profits per dollar of sales in small-size corporations reached 6.1 cents, up from 5.0 cents a year earlier. The rate of pre-tax profit on stockholders' equity reached a postwar high of 32 percent in this latest quarter, compared with 26 percent a year earlier. Strong advances also were made by large corporations, but not to the same degree.

Another element contributing to the impressive sales and profit performance of small business was the solid record of fair allocations of Federal contracts to small business. During 1966, Department of Defense prime contracts for procurement to small business amounted to 21 percent of the total value. This was higher than the 20 percent share in 1964 and 1965 and 16 percent in 1963. In civilian executive agencies, the fiscal year 1966 small business share amounted to 22 percent of the total value of procurement.

It is of further particular importance to the small businessman that despite the demands brought on by the hostilities in Vietnam we have not resorted to the broad range of controls on production and defense materials such as occurred during the Korean War. As hearings of this Committee have well documented, small business has been at a relative disadvantage under extensive production and materials control systems in the past.

There are other aspects of the small business picture which, on the surface, are less encouraging. While the number of small businesses continues to grow -- achieving a 1-1/2 percent annual increase in the past two years -- their relative share in the total number of U. S. business concerns has slipped. In manufacturing, the smallest corporations -- those, to repeat, with assets of less than $1 million -- registered sales during the first three quarters of 1966 which were nearly 50 percent higher than in 1960. But this was not as great as the increase in sales of larger corporations, which rose nearly three-fifths over this period. The latest available comprehensive sales figures, those for the third quarter of 1966, show sales for the smallest corporations up 12.3 percent above a year earlier, while sales of larger sized corporations increased 13.6 percent.

The share of national income going to small business has probably diminished over the last decade. But, by and large, the position of small business has strengthened appreciably during the current economic expansion.

Recent months have witnessed a leveling off in sales to consumers which has undoubtedly been noticed by both small and large businesses. However, personal income has continued to rise and unemployment remains low. We believe that when these factors are coupled with still higher expenditures for defense and for state and local improvements, and also easier credit conditions which will be of particular benefit to homebuilding, the pace of economic expansion will pick up again. Indeed, the slower pace of expansion in this current half year period was anticipated in the economic

program set out by the President at the start of the year. It is in light of this pattern that current fiscal planning is in terms of a tax surcharge to take effect later this year, and not in the current period of lessened exuberance.

Small Business and Taxation

A number of new or strengthened provisions of the tax law in the last six years recognize particular problems faced by smaller businesses. These provisions are:

Reversal of corporate normal and surtax rates. The Revenue Act of 1964 reduced the tax rate applicable to the first $25,000 of corporate income from 30 percent to 22 percent, a 27 percent reduction at a time when the tax rate on corporate income in excess of $25,000 was being reduced by slightly over 8 percent. The annual tax saving for the 500,000 corporate firms with taxable incomes of $25,000 or less totaled about $270 million beginning in 1964.

Accomplished through the reversal of the corporate normal and surtax rates, this special reduction for small business represented a long-sought reform in the corporate rate structure to encourage the growth and survival of small companies.

General rate reduction. The Revenue Act of 1964 gave new meaning and content to the national policy declared by the Congress in the Employment Act of 1946. At a critical stage in our economic development this tax reduction legislation gave the private economy a boost. Small business

had a vital stake in this major legislation both in its capacity as taxpayer and in its capacity as beneficiary of enlarged purchasing power for its output of goods and services.

Small business benefited considerably from the cuts in individual income tax rates in 1964 which averaged 20 percent. These rate cuts applied to the owners of about four million unincorporated businesses.

Small business benefits in a special way from a fiscal policy aimed at increasing economic stability because small businesses with limited financial resources are most likely to be adversely affected in a recession. The successful economic policy directed at maintaining high employment over the last six years has greatly reduced the failure rate of small businesses and has made possible the launching of new ventures which could not have been successfully launched under recession conditions.

Income averaging. A number of small unincorporated businesses in a variety of trades and industries have widely fluctuating incomes. Such firms will benefit from the income-averaging provision of the 1964 Revenue Act. It applies to any individual whose ordinary income for the taxable year increases by more than one-third (but at least $3,000) over his average income for the prior four years. In effect, the taxpayer is allowed to treat any amount over the one-third increase as though he had earned it over a five-year period -- and his overall income for that year is thus taxed at a considerably reduced rate.

For example consider a businessman whose business profit and corresponding taxable income for the five years 1962-1966 were as follows:

	Profit	Taxable income
1962	$30,000	$25,000
1963	5,000	1,000
1964	33,000	26,000
1965	30,000	23,000
	Subtotal	75,000
1966	100,000	90,000

Without averaging, this businessman, assuming he were married, would be subject to a marginal rate of tax as high as 60 percent on his 1966 income, and would pay a total tax for 1966 of $39,180. With averaging, however, the marginal rate will range up to 45 percent, and his total tax on 1966 income will amount to $32,120. Thus, averaging provides this businessman with a tax saving of $7,060.

Income averaging is particularly advantageous to small businesses and has provided them with very substantial tax savings. In 1965, more than half of the tax reduction from income averaging went to individuals whose principal source of income was from business, partnership, or profession net profit. Their tax savings totaled nearly $86 million of the $168 million savings for all taxpayers. Averaging was used by nearly 135,000 taxpayers whose principal income was from these sources.

The investment credit. Several features of the investment credit law enacted in 1962 provide particular advantage to small business. In general, the investment credit has been limited to an amount equal to 25 percent of the annual tax liability. This limitation will be increased to 50 percent effective for periods after January 1, 1968 if Congress enacts the President's recommendations to lift the suspension of the credit. However, in recognition of the problems of small business this limitation is not imposed on the first $25,000 of tax liability.

A 3-year carry back and a 5-year carry forward of unused investment credit were provided in the original legislation. The carry forward was recently extended to 7 years, further protecting the firm with uneven earnings or uneven investment against waste of unused credit benefits. These carry over provisions are likely to be of particular benefit to smaller firms which frequently have uneven patterns of earnings and investment. In addition, the amount of used property that may be counted for investment credit purposes is limited to $50,000 in a year. This covers the full purchases of small and medium sized businesses but restricts the investment credit of used property acquisitions by a large business.

Investment credit suspension. When it became necessary to suspend temporarily the investment credit and the accelerated depreciation methods on buildings in 1966, special exemptions were designed to help small business and farmers. These provisions exempted up to $20,000 the cost of machinery and equipment. They also exempted from the suspension of accelerated depreciation a building or buildings costing no more than $50,000. These exemption rules were specifically designed to help small business enterprises and independent farmers.

Effect of investment credit combined with other tax measures. The tax treatment of new investment for machinery or equipment may be illustrated in terms of the percentage of the cost of an asset subject to tax writeoff or equivalent charges against income in the year of acquisition.

In the case of a 10-year asset costing $10,000, purchased by a firm subject to the 22-percent corporate normal tax rate, the following deductions or equivalents may be taken:

20-percent initial allowance (1958 law)	$2,000
7-percent investment credit expressed as an equivalent deduction from income	3,182
First-year depreciation (double-declining balance depreciation, 10-year life)	1,600
Total	6,782

As these figures demonstrate, the various allowances under present law and the proposed reinstatement of the investment tax credit would in effect permit tax free recovery of two-thirds of the cost of a machine or other equipment item with a 10-year life in the year of its acquisition. To the extent the depreciable life is shorter than the 10-years assumed in the example, the proportion of capital recovery would be still greater.

The average 15-percent reduction in tax lives resulting from the 1962 liberalization of depreciation guidelines is assumed to be already reflected in the 10-years used here. Prior to this reduction, the tax life would have been 11.75 years, with the result the first years double-declining balance depreciation would have been $338 less than the $1,600 indicated.

Measures such as liberalized depreciation, the special low corporate tax rate and the proposed reinstatement of the full investment tax credit all serve to increase the internally generated flow of cash needed to make new investments. This is especially important to the capital scarce and growing small firm.

There are several problem areas in the current tax law which call for remedial legislation for the benefit of small business. Changes dealing with these problem areas should be made.

Abuses in the Exempt Organization Area. The Treasury Department has recently recommended legislative action upon two problems in the exempt organization area of concern to small business.

Foundations. Advantages which tax exemption confers upon private foundations has made some of these organizations formidable and successful competitors with taxable businesses. Defects in the present tax on the unrelated business income of private foundations make it possible for many foundations to arrange their business enterprises so as to largely or entirely immunize the profits from tax. Even if the present unrelated business income tax contained no avenues of avoidance, the commercial enterprises conducted or controlled by private foundations would still possess significant competitive advantages over those owned by taxable entities.

Because contributions to foundations are deductible, the capitalization of foundation businesses is accomplished with tax-free dollars, rather than after-tax dollars. The tax immunity of dividends, interest, and other proceeds stemming from passive sources enables foundations to supply capital to their business endeavors with exempt income. Experience with foundation-owned businesses has shown that they are frequently free from demands for current distributions of earnings -- often an important competitive advantage. Because of these competitive problems, and other unfortunate consequences attendant on foundation involvement in business, the Treasury Department has recommended that Congress adopt legislation requiring private foundations to dispose of substantial business interests which are unrelated to exempt activities.

Investment Borrowing by Exempt Organizations. In 1965 the Supreme Court approved capital gains treatment for persons who sold a business to a tax-exempt organization under an arrangement designed both to immunize the business profits from tax and to provide payment of the purchase price only from those profits. The decision provides a powerful incentive for the owners of businesses and other classes of productive property to sell to exempt organizations, rather than taxable purchasers, because the tax exemption of the proceeds being used to finance the purchase price makes it possible for the exempt entity to pay a substantially higher price than anyone else can afford. This tax incentive thus stamps out many promising small enterprises. And it places taxpaying business enterprises at a substantial competitive disadvantage in acquiring other businesses. To deal with this problem and related difficulties flowing from the Supreme Court

decision, legislative proposals are being developed -- similar to bills upon which the Ways and Means Committee held hearings last year -- which would restore competitive parity in this area.

The advantage employed by large chains of corporations using multiple surtax exemptions. The advantage enjoyed by large chains of corporations using multiple surtax exemptions is a serious burden on small business competitors. The special provisions, including a 6 percent penalty tax enacted in 1964 applicable to corporations using multiple surtax exemptions, did not appreciably reduce the special tax advantage of the large corporate chains. Further steps are necessary to reduce the ability of the large multiple corporate chains or complexes to pre-empt a large portion of the benefits intended to assist small corporate business.

Some $150 million of unintended tax windfalls to multiple groups is involved.

Revision of the tax option corporation provisions. The 1958 legislation providing tax benefits for small business is not trouble free. In particular, the provisions permitting corporations to elect not to pay corporate tax in a manner "somewhat like partnerships" are complex. As a result it has been difficult for small business to use this election. These provisions now are being explored by the Treasury staff in discussions with an American Bar Association Section on Taxation committee and the staff of the Joint Committee on Internal Revenue Taxation. These discussions should prove fruitful and result in a proposal to revise this special election

to make it more available to small business by eliminating the complexity in the way the election operates, as well as some unintended hardships and some unintended benefits.

The use of industrial development bonds by states and municipalities. Abuses of the tax exempt borrowing privilege extended to our state and local governments are becoming a source of major concern to everyone interested in industrial financing and to everyone interested in the integrity of our federal taxing system. In 1960 when only 13 states authorized industrial development bonds the total of new issues in that year amounted to only $70 million. By 1966 the annual volume of new issues had increased over sevenfold to $500 million and the number of states that sanctioned some form of this abuse of their borrowing status had increased to 35.

The industrial development financing technique was originally developed and used as a means of attracting relatively small industrial concerns to rural areas. In recent years, however, it has been used to create multi-million dollar facilities for some of the largest industrial corporations in the country. Tax-exemption has thus been utilized for the benefit of large industrial concerns which do not face the major problem confronting small business firms, that is, securing loan funds at a reasonable cost. In either case the practice represents a costly and uncontrolled waste of federal tax dollars that should be stopped.

I think this review suggests that the tax advantages already available to small business are such that caution is in order in considering any new special tax advantages for small business. Such benefits may, despite the

best intentions, turn out in practice to be of greatest benefit to large wealthy enterprises and thereby worsen the competitive position of small business. They may go beyond any demonstrated genuine need for financial assistance through the tax system. Their costs to the revenue system may outweigh scattered and hard-to-measure benefits.

As a very practical case in point, consider the existing special low rates on the first $25,000 of corporate earnings. As we have just seen, the spread between the 22 percent rate and the general 48 percent corporate rate creates the problem of multiple incorporation whereby benefits intended for small business frequently misfire and give large corporate chains an unfair advantage.

While there may be particular instances in which tax relief is the sound way of dealing with a particular small business problem, the substantial use already made of the tax system for this purpose suggests that further steps require increasing caution and increasingly careful examination of the existing framework of tax benefits.

Small Business and Financial Markets

The bulk of small business financing is done in private financial markets. While there does not seem to be any particular reason to believe that the legitimate financial needs of small business are going unmet, this is an area where our statistical information is meagre.

In 1958 the Federal Reserve Board published the results of a major study on the availability of financing for small business. The study included the various needs of small business for financing and sources of funds, and a detailed statistical study of bank lending to small business in an effort

to determine whether tight money had a discriminatory impact on small business. The Federal Reserve's study still stands as the most thorough examination of small business financing that has been undertaken. However, in the course of the intervening 10 years from the end of the period examined there have been important changes in the financial environment in which American business, large or small, operates.

The 1958 study suggested that while short-term financing through banks and trade sources was generally adequate, there appeared to be some gaps in the availability of longer-term and venture capital. Two subsequent surveys in 1959 and 1960 -- described in Chairman Martin's recent statement to your Committee -- confirmed that small business firms encountered greater difficulty in satisfying their financing needs in the areas of long-term debt and equity capital. In an effort to plug some of the gaps, Congress in 1958 expanded the authority of the Small Business Administration and made it a permanent agency. In connection with the demonstrated need in the area of long-term financing and equity capital, the Small Business Investment Act established the Small Business Investment Company Program in 1958. While the program has not been problem-free and many SBIC's have encountered financial difficulties, the program has contributed to an increased flow of venture capital to small business.

Since the Small Business Investment Act of 1958, Congress has on several occasions expanded the tools and lending programs of the SBA. The participation sales legislation, strongly supported by the Treasury and enacted last year, provides an efficent and orderly method for transferring to the private sector financial assets held by the Small Business Administration and other Federal

agencies. As Mr. Boutin pointed out in his statement before your Committee, the participation sales program enables the Small Business Administration, through the Federal National Mortgage Association, to market participation certificates based upon loan pools and thus obtain funds for its lending programs.

During the past five years or so there has emerged a more competitive climate in banking and finance. This relates in part to increased competition for time and savings deposits and the need to put them to work profitably. It relates also to relaxation of some of the restrictions on the lending undertaken by various financial institutions and to the increased number of branches of financial institutions and the number of bank charters. The prepared statement of Comptroller Camp to your Committee has pointed to the structural changes in banking that have occurred in recent years and their importance for small business financing. As a result banks and other lenders have taken a more positive attitude toward making loans and toward taking risks, and the general availability of funds to small business firms increased appreciably. This greater credit availability has contributed to the improved performance of small business discussed in Mr. Boutin's statement of March 1 to this committee.

A question explored in the Federal Reserve's earlier study of small business financing and one that has been the source of considerable practical and theoretical interest is whether small business is subject to discrimination under tight money conditions.

In periods of monetary restraint previous to our most recent experience, the impact of restraint fell heavily on commercial banks and their customers. Bank credit grew only slightly and banks were forced to ration their lending. Rationing sometimes took the form of restricting credit to customers in less powerful financial condition, usually smaller firms.

But even ignoring this aspect of monetary restriction, the burden may fall most heavily on smaller firms because they do not have ready access to impersonal credit markets. Larger firms, not able to find adequate accommodation at commercial banks, could bid for funds in the open market -- smaller firms could not. To some extent, of course, by relying on trade sources for financing, smaller firms could tap nonbank sources indirectly.

In more recent years banks have been able to compete strongly for time deposits, thus expanding their business loans long into a period of monetary restraint. Because banks could compete effectively for time deposits, much of the burden of monetary restriction was shifted to impersonal credit markets and to the thrift institutions. The latter development was not altogether desirable, for it placed a heavy burden on the mortgage market and the homebuilding industry. However, it does appear that elsewhere in the economy smaller business firms fared reasonably well in competing for credit in 1966 and they appeared to be under considerably less pressure than during past periods of monetary restriction such as in 1956-57.

Small Business and the Balance of Payments. A strong competitive position in world markets is essential for our balance of payments. Our balance of payments programs recognize the contribution that small business can make, particularly in the export field. Mr. Linder has described to your Committee how the financial programs of the Export-Import Bank are designed to increase the participation of small and medium-size firms in this country's export trade. Mr. Trowbridge has explained the comprehensive programs of the Department of Commerce which help our small businesses to expand their sales abroad, and to enter foreign markets for the first time. The Small Business Administration is also actively pursuing the goal of greater participation by smaller business. The participation of these smaller firms is frequently in the form of supplying components to major exporters -- making their contribution relatively inconspicuous but no less real.

Small business can also help our balance of payments in such areas as tourism, banking, and finance. Through their own efforts and by contributing to a generally more competitive atmosphere at home, small businesses help to insure our ability to meet import competition. We must make certain that we take full advantage of the resources of the small business community in all of these areas.

Conclusion

In concluding, I would return to my earlier stress on the controlling fact that the greatest assistance we can give to small business flows from policies encouraging an open, competitive, prosperous economy, making the fullest practicable use of all its resources, including the invaluable resources of small business. We do need to study the changing nature of the

problems faced by small businesses and to insure that our programs move adequately with the times.

It seems to me that the further question is not, what more -- other than maintenance of such favorable general conditions -- should we do for small business, but, rather, the question should be: Are we doing through public policy, everything that we can, and should, do to avoid any loss of the benefits of an open, competitive and prosperous economy to small business due to lack of information, lack of financial strength or other possible disadvantages of small size.

I think we should be energetic in seeking to offset any such penalties. I think that if we are, we will find that we free small business from the need for special advantages.

Therefore, the leadership provided by your Committee and the Small Business Administration is extremely welcome. I am sure that all branches of the Government will be working with you to determine how we can best insure that small business remains the vital force in our economy that it has been in the past.

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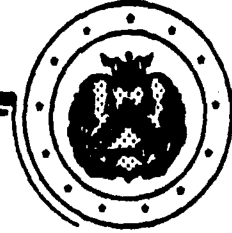
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 22, 1967

FOR IMMEDIATE RELEASE

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $2,300,000,000, or thereabouts, for cash and in exchange for Treasury bills maturing March 30, 1967, in the amount of $2,304,771,000, as follows:

91-day bills (to maturity date) to be issued March 30, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated December 29, 1966, and to mature June 29, 1967, originally issued in the amount of $1,001,292,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated March 30, 1967, and to mature September 28, 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, March 27, 1967. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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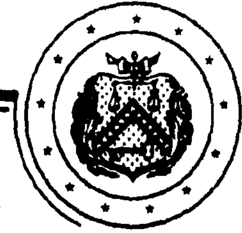
Immediately after the closing hour, tenders will be opened at t Federal Reserve Banks and Branches, following which public announce- ment will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treas expressly reserves the right to accept or reject any or all tenders in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on March 30, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing March 30, 1967. Cash and exchange ten will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

The income derived from Treasury bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and loss from the sale or other disposition of Treasury bills does not have any special treatment, as such, under the Internal Revenue Code of 1954. The bills are subject to estate, inheritance, gift or other excise taxes, whether Federal or State, but are exempt from all taxation now or hereafter imposed or 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 exclud from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereun 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 t 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.

TREASURY DEPARTMENT



WASHINGTON, D.C.

March 23, 1967

FOR RELEASE 12:00 NOON,
THURSDAY, MARCH 23, 1966

SECRETARY FOWLER ANNOUNCES APPOINTMENT OF GLEN R. JOHNSON
AS NATIONAL DIRECTOR, U. S. SAVINGS BOND DIVISION

Secretary of the Treasury Henry H. Fowler today announced the appointment of Glen R. Johnson as National Director of the U. S. Savings Bonds Division.

Mr. Johnson has been State Director of the Savings Bond Division in Minnesota since 1962. Under his direction Minnesota's annual percentage gain in Savings Bonds sales rose from 48th among the states to first.

Mr. Johnson was born in Lake Lillian, Minn., May 2, 1929. He attended Gustavus Adolphus College and the Minnesota School of Business between 1946 and 1949. His first federal job was as a U. S. postal clerk in the early 1950's.

In 1949 he founded the Lake Lillian Crier, a weekly newspaper, of which he was editor and publisher until 1961. He also published Fishing and Boating News, a sporting publication.

Mr. Johnson was appointed Deputy Director and Area Manager of the Minnesota U. S. Savings Bonds Division in May, 1961, and became State Director in January, 1962.

He has been President of the Lake Lillian Chamber of Commerce; Chairman of the Kandiyohi County United Fund and of the county Mental Health Association; organizer and President of the Kandiyohi County Press Association; Secretary of the Congregation of the Lake Lillian First Lutheran Church, and is an Honorary Member of the Minnesota Newspaper Association. He has been active in the Red Cross, March of Dimes and Cancer Drive.

Mr. Johnson was named Twin City Civil Service "Employee of the Year", in the leadership category, in 1965 -- one of three Federal employees selected from a field of 16,000. That same year, he won Treasury's Certificate of Merit Award.

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Mr. Johnson is married to the former LaVonne Corley of Lake Lillian. Mr. and Mrs. Johnson have three children, Vicki, 17; David, 13; and Lori, 12.

Mr. Johnson's parents are Mr. and Mrs. Oscar Johnson of Lake Lillian.

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TREASURY DEPARTMENT

WASHINGTON, D.C.
March 23, 1967

FOR IMMEDIATE USE

UNDER SECRETARY OF THE TREASURY JOSEPH W. BARR
AND CONGRESSIONAL ADVISERS
TO VISIT AFRICAN COUNTRIES

Under Secretary of the Treasury Joseph W. Barr is departing for Africa today for discussions with the Tunisian Minister of Planning and National Economy, Ahmed Ben Salah, the Ethiopian Minister of Finance, Menasse Lemma, the Minister of Finance of Kenya, J. S. Gichuru and the Minister of Finance of the Ivory Coast, Konan Bedie.

The Treasury Under Secretary will discuss with the four African Ministers their experience with the International Development Association and the International Finance Corporation.

He will also consult in Abidjan, Ivory Coast with President Mamoun Beheiry of the African Development Bank and his colleagues. The U. S. Government is considering ways in which the United States could appropriately respond to the request of the African Development Bank for United States participation in a special fund to finance worthy projects beyond the means of the Bank's ordinary capital.

These discussions will be carried out in the light of President Johnson's statement that United States aid policy toward Africa will encourage the African activities of the World Bank and its affiliates, direct more resources into projects and programs involving more than one African country and seek breakthroughs in private investment in Africa.

Under Secretary Barr will be accompanied by members of Congress concerned with U. S. financial participation in the operations of the World Bank, the International Development Association and other multi-national development institutions.

They are:

From the House Banking and Currency Committee: Rep. Abraham J. Multer; Rep. Seymour Halpern; Rep. Leonor K. Sullivan;

Rep. Albert W. Johnson; Rep. Robert G. Stephens, Jr.; Rep.Chester L. Mize; and Rep. Tom S. Gettys.

From the House Appropriations Committee: Rep. Jeffery Cohelan and Rep. Silvio O. Conte.

From the House Foreign Affairs Committee: Rep. Donald M. Fraser.

Mr. Barr will also be accompanied by Assistant Secretary Knowlton and staff officials from the Treasury, the State Department, the Agency for International Development and interested Congressional committees.

Mr. Barr will be in Tunis March 24-27, in Addis Ababa, March 27-29, in Nairobi, March 29-April 2 and in Abidjan April 3. He will return to Washington April 3.

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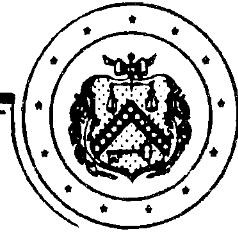
TREASURY DEPARTMENT



WASHINGTON, D.C.

)R RELEASE 6:30 P.M.,
)nday, March 27, 1967.

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 December 29, 1966, nd the other series to be dated March 30, 1967, which were offered on March 22, 967, 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:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing June 29, 1967		:	182-day Treasury bills maturing September 28, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	98.955	4.134%	:	97.957	4.041%
Low	98.947	4.166%	:	97.930	4.095%
Average	98.951	4.150% 1/	:	97.941	4.073% 1/

55% of the amount of 91-day bills bid for at the low price was accepted
44% of the amount of 182-day bills bid for at the low price was accepted

OTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 20,188,000	$ 10,188,000	:	$ 11,088,000	$ 1,088,000
New York	1,679,203,000	892,787,000	:	1,201,981,000	690,521,000
Philadelphia	30,348,000	18,348,000	:	11,610,000	3,610,000
Cleveland	28,866,000	28,866,000	:	15,398,000	15,398,000
Richmond	13,980,000	13,980,000	:	3,051,000	3,051,000
Atlanta	54,303,000	28,889,000	:	28,344,000	17,104,000
Chicago	334,717,000	141,017,000	:	293,717,000	153,717,000
St. Louis	50,409,000	39,374,000	:	13,792,000	9,092,000
Minneapolis	19,546,000	14,356,000	:	9,784,000	9,284,000
Kansas City	35,505,000	29,498,000	:	9,592,000	9,592,000
Dallas	24,764,000	14,414,000	:	14,727,000	4,727,000
San Francisco	233,827,000	68,737,000	:	182,826,000	82,938,000
TOTALS	$2,525,656,000	$1,300,454,000 a/		$1,795,910,000	$1,000,122,000 b/

a/ Includes $273,667,000 noncompetitive tenders accepted at the average price of 98.951
b/ Includes $ 94,905,000 noncompetitive tenders accepted at the average price of 97.941
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.26% for the 91-day bills, and 4.23% for the 182-day bills.

F - 863

TREASURY DEPARTMENT

WASHINGTON, D.C.
March 28, 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON FISHERY PRODUCTS
UNDER THE ANTIDUMPING ACT

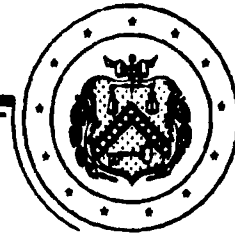
The Treasury Department has determined that shrimps, lobster tails, and lobsters, fresh frozen or cooked frozen, from the U.S.S.R. are not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C. 160 *et seq*.). A "Notice of Tentative Determination," was published in the Federal Register on January 31, 1967.

All written submissions received in opposition to the tentative determination were given full consideration, but none contained persuasive grounds justifying a different conclusion. No request was made of the Secretary of the Treasury for an opportunity to present views.

Customs officers are being instructed to proceed with the appraisement of this merchandise from the U.S.S.R. without regard to any question of dumping.

Imports of the involved merchandise received during the period January 1, 1966, through October 31, 1966, were valued at approximately $500,000. There have been no reports of importations of the merchandise under consideration subsequent to the foregoing period.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Tuesday, March 28, 1967.

RESULTS OF TREASURY'S MONTHLY 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 December 31, 1966, and the other series to be dated March 31, 1967, which were offered on March 22, 1967, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 275-day bills and for $900,000,000, or thereabouts, of 366-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	275-day Treasury bills maturing December 31, 1967		:	366-day Treasury bills maturing March 31, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	96.899	4.059%	:	95.870	4.062%
Low	96.872	4.095%	:	95.839	4.093%
Average	96.885	4.078% 1/	:	95.858	4.074% 1/

35% of the amount of 275-day bills bid for at the low price was accepted
56% of the amount of 366-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	$ 20,000	$ 20,000	:	$ 30,486,000	$ 19,166,000
New York	917,948,000	395,959,000	:	1,131,891,000	666,431,000
Philadelphia	4,324,000	324,000	:	9,188,000	1,188,000
Cleveland	25,416,000	10,416,000	:	24,004,000	8,974,000
Richmond	760,000	760,000	:	7,737,000	1,737,000
Atlanta	15,484,000	5,484,000	:	16,062,000	6,062,000
Chicago	207,769,000	34,961,000	:	305,307,000	110,307,000
St. Louis	8,252,000	4,952,000	:	9,698,000	6,598,000
Minneapolis	11,146,000	1,146,000	:	3,579,000	1,859,000
Kansas City	1,549,000	1,549,000	:	2,928,000	2,928,000
Dallas	11,550,000	6,550,000	:	12,079,000	8,079,000
San Francisco	95,205,000	37,950,000	:	116,173,000	66,673,000
TOTALS	$1,299,423,000	$ 500,071,000 a/		$1,669,132,000	$ 900,002,000 b/

a/ Includes $18,116,000 noncompetitive tenders accepted at the average price of 96.885
b/ Includes $40,127,000 noncompetitive tenders accepted at the average price of 95.858
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.25% for the 275-day bills, and 4.28% for the 366-day bills.

F-864

TREASURY DEPARTMENT

WASHINGTON, D.C.

March 29, 1967

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 April 6,1967, in the amount of $2,300,427,000, as follows:

91-day bills (to maturity date) to be issued April 6, 1967, in the amount of $ 1,300,000,000, or thereabouts, representing an additional amount of bills dated January 5,1967, and to mature July 6,1967, originally issued in the amount of $ 1,001,157,000,the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated April 6, 1967, and to mature October 5, 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, April 3, 1967. 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-865

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 6, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 6, 1967. 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 thi notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained f any Federal Reserve Bank or Branch.

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FOR USE IN MORNING NEWSPAPERS OF
THURSDAY, MARCH 30, 1967

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE
LAUNCHING OF UNITED AIR LINES' 1967
DISCOVER AMERICA CAMPAIGN
STATLER-HILTON HOTEL, WASHINGTON, D. C.
WEDNESDAY, MARCH 29, 1967, 6:30 P.M., EST

I am indeed pleased this evening to be invited to the inauguration of United Air Lines' extraordinary promotion campaign in support of President Johnson's Discover America program.

In its brief two year existence, Discover America, Inc. has worked vigorously to develop the American tourist market. Until 1965 the United States lacked a single organization which could serve to coordinate the many diverse tourist programs of private industries. Now, in Discover America we have such an organization and I am confident that these unusual resources will be properly developed.

There is another important reason this evening for my enthusiasm over the programs of Discover America and United Air Lines. This reason relates to one of our most important national efforts -- achieving for this country a proper balance of international payments.

In recent years, with the continually rising level of income of the average American and the growing attraction of foreign -- particularly European -- travel, Americans have tended to seek more and more travel opportunities abroad. The result has been a rapid growth in our tourist expenditures overseas -- a growth which has outpaced our receipts from foreign visitors coming to this country. In 1955 our total travel payments to foreign countries were approximately $1.4 billion. In 1966 we are estimating that this dollar outflow will reach the $3.4 billion mark.

This figure in itself would not be significant were it not for the wide gap between our own expenditures abroad and our receipts from foreign visitors in the United States. On the receipts side, we are now estimating that in 1966 the total dollar inflow will total approximately $1.6 billion, an encouraging rise from less than $1 billion in 1961. The net result, however, is a tourist deficit in 1966 around $1.8 billion. When we compare this $1.8 billion deficit on tourism with our overall deficit on a liquidity basis of $1.4 billion in 1966, we can understand the vital role which our tourist expenditures play in our overall balance of payments results.

The ultimate solution to containing our tourist deficit lies in the success of efforts of private organizations such as Discover America and United Air Lines. Tourism throughout the world has become a major industry. The enormous tourism boom in such areas as Western Europe, the Mediterranean, Japan, Mexico, etc., is largely the result of vigorous marketing efforts.

We in Government and private industry are only beginning to realize the great potential which lies before the American tourist market. American enterprise has traditionally been quick and aggressive in seizing favorable market opportunities for its products. Our product is travel in America and our market consists of the many millions of travel-conscious Americans and foreigners. Competition among nations for this market is intense, and timing is highly important. Unless we in the United States can act quickly to capture a profitable share of this dynamic market, we may find ourselves obtaining only marginal benefits from international tourism.

The Administration fully supports the combined efforts of organizations such as United and Discover America to develop a profitable tourist market It is our judgment that your initiative and imagination are by far the best ways to help correct our unfavorable tourism balance and enhance our tourist market for Americans and non-Americans alike.

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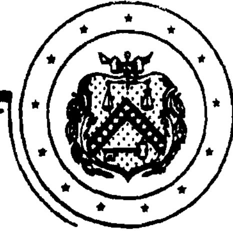
TREASURY DEPARTMENT



WASHINGTON, D.C.

March 29, 1967

FOR IMMEDIATE RELEASE

DR. HOWARD GETS TREASURY'S
ALEXANDER HAMILTON AWARD

Secretary of the Treasury Henry H. Fowler today presented the Treasury's Alexander Hamilton Award to Dr. Frank Leland Howard, director of the Treasury's Office of Domestic Gold and Silver Operations.

The Alexander Hamilton Award is the Treasury's highest honor. It was established in 1955 to "give recognition for outstanding and unusual leadership in the Treasury Department" and "to be awarded those whose leadership in the Treasury is such as to bring outstanding and unusual service and benefit to the Government and so to the people of our Nation."

Dr. Howard leaves Federal service on March 31, after nearly 33 years of service in the Treasury Department. He began his employment with the Bureau of the Mint on April 30, 1934. Beginning as an auditor he rose through the ranks to become assistant director, and in several instances, acting director of the Mint.

Dr. Howard's formal resignation took effect on December 30. He agreed to remain for several months as a consultant.

The award to Dr. Howard cited him for having "contributed with distinction to the formulation and execution of Treasury policies concerning the domestic control of monetary metals," and noted that his advice has been sought by other Government agencies, Members of Congress and by foreign governments.

From June 9 to August 25, 1945, Dr. Howard served as Advisor to the Supreme Headquarters, Allied Expeditionary Forces, directing the work of inventorying the precious metals collected by the Nazis during World War II and stored in the Reichsbank at Frankfort, Germany.

F-866

In 1948, he served as Advisor to the Commanding General, Eighth Army, Yokahama, Japan, on matters relating to an inventory of precious metals in Eighth Army's custody.

Under the Point IV program, he advised Peruvian officials, during August and September 1951, on the organization and modernization of the National Mint of Peru.

In the Spring of 1957 he was head of a special mission to Pakistan and India, working out arrangements for the return of Lend-Lease silver.

In November and December, 1965, Dr. Howard was a Consultant to the Government of Australia on various monetary and mint problems, particularly the decimal coinage system. During that period he also inspected the Sudanese Mint and conferred with Sudanese officials on matters related to Coinage.

Born in Hodgenville, Kentucky, Dr. Howard, 59, received his B.S. degree in Business Administration from the University of Kentucky. He took his M.S. and Ph.D. degrees in Economics from the University of Virginia.

He was Assistant Director of the Mint from 1938 until 1961. In October 1961, the Office of Domestic Gold and Silver Operations was established and Dr. Howard was named its first director.

Dr. Howard lives at 3413 Dent Place, N.W., Washington, D.C. The citation to his award is attached.

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CITATION

Alexander Hamilton Award

Frank Leland Howard

As a long-time official of the United States Treasury Department, first as Assistant Director of the Mint and later as the first Director of the Office of Domestic Gold and Silver Operations, you have contributed with distinction to the formulation and execution of Treasury policies concerning the domestic control of monetary metals.

You have demonstrated great technical knowledge and astute judgment in consistently providing sound recommendations and advice on the delicate and complex interrelationships between monetary metals and domestic and foreign economic developments. Your help has been sought by other Government agencies, Members of Congress and by foreign governments, and modernized currency systems in several parts of the world stand as monuments to your assistance.

Your record of more than 30 years of outstanding leadership in the Treasury Department makes you a worthy recipient of the Alexander Hamilton Award, the highest recognition within the power of the Secretary of the Treasury.

Treasury Department Fiscal Year 1968
Appropriation Hearings

General Statement of the Secretary

APR 3 1967

Mr. Chairman and Members of the Treasury Subcommittee on Appropriations, I am pleased to appear before you as the first witness in support of the 1968 budget request of the Treasury Department. Heads of each of the Treasury bureaus will appear before you later to discuss in such detail as you may wish the many important functions performed in the Treasury.

This year we do not have the Coast Guard with us. The Department of Transportation is now established and transfer of the Coast Guard has been completed. Its association with related activities in the new Department should do much to enhance its opportunities and effectiveness. We wish for the Coast Guard a new era of ever finer achievement.

On March 20 the Committee on Appropriations of the House of Representatives in House Report No. 144, reported H.R. 7501, making appropriations for the Treasury Department for fiscal year 1968.

The Bill, as passed by the House on March 22, 1967, provides $915,726,000 for regular annual operating appropriations. A reduction of $12,147,000 was made in the budget estimates submitted by the President. I would like to discuss generally the requests which we included in the President's Budget and then comment on the effects of

the reductions made by the House.

In the Treasury Department we are doing everything we can think of to accomplish the tasks that have been assigned with the fewest possible people and at the least possible cost. These hearings give us an opportunity to explain our work plans and to present the financial plans we have developed to accomplish them. We thank you for the understanding and support of this Committee over our many years of association. It is our intention to keep our affairs in such order that your constructive interest will always be merited. We welcome any suggestions you may have to improve service or save money.

Requests for regular operating appropriations in the President's Budget totaled $927.9 million for 1968 -- an increase of $30.7 million over appropriations to date for 1967 and proposed supplementals included in House Documents No. 83 and 91. By comparison, the increase we requested for these accounts last year was $56 million. Last year was tight. This year is terribly tight. This year hits a new low in requests for increases to meet service workloads that inevitably grow with population and economy.

The Departmental Management Improvement Program

This Committee has been watching and supporting our efforts to deal with these ever-increasing workloads for years. Since 1946 when the formal Departmental Management Improvement Program was started,

$271 million have been saved as a result of aggressive efforts to do the job for less cost. Elimination of low priority work, reorganizations, automation of repetitive tasks, work simplification, employee training, an imaginative approach in the use of people, machines, and space have been the means of the improvements.

In the year just past, fiscal year 1966, we have set a new record for management savings. Our goal under the President's Cost Reduction Program -- the latest extension of our long term Management Improvement Program -- was $34.1 million. We saved $44.5 million and the equivalent of 3,600 man-years of employee effort. We established a goal of $50 million at the beginning of fiscal year 1967, including savings of the Coast Guard.

Our program emphasizing cost-consciousness goes to every level of supervision. For example: Employee suggestions of improved ways to do things saved $2.9 million last year. Productivity was increased at the Bureau of Engraving and Printing by installing and perfecting the use of new currency presses, savings were made in procurement contracts, the useful life of old equipment was prolonged, more economical engines were found to be satisfactory for five Coast Guard cutters. The list of major items is long -- there are 77 items. These are some of the ways we keep our appropriation requests at such low levels. I know that other witnesses will be glad to go into more detail on some of these items when they testify.

Planning, Programming and Budgeting System

This past year we instituted the Planning, Programming and Budgeting System in the Department. This approach looks at operations in terms of programs rather than organizational units and evaluates them in terms of priorities, costs, and benefits. Part IV of the President's Budget contains summary data on the Department's major programs, showing resources used and related output measures -- the first time such data have been available. This activity is still in its developmental phase but has already proved a useful adjunct to the budget making process.

Principal Changes in Appropriations

The Bureau of the Mint is showing a substantial reduction from its 1967 funding level for operating expenses.

The principal increases are $33.8 million for Internal Revenue Service, $2.1 million for the Bureau of Customs, $1.3 million for the Secret Service, and $1.5 million for the Bureau of Accounts. Changes in the other bureaus are very small. I would like to explain the principal increase items briefly if I may, and comment in passing on the remaining appropriation requests.

May I present for the record at this point, summary statements on the 1968 budget estimates for all the annual appropriation accounts of the Department and a statement comparing the 1968 budget estimates with the amounts provided in the House Bill.

TREASURY DEPARTMENT
Annual Appropriations for Treasury Department for 1967
and Estimated Requirements for 1968
(In millions of dollars)

	1967 Appropriations 1/	1968 Budget Estimates	Increase or Decrease (-)
Regular Annual Operating Appropriations:			
Office of the Secretary	$7.1	$7.3	$0.2
Bureau of Accounts:			
Salaries and Expenses	33.0	34.5	1.5
Fund for Payment of Government Losses in Shipment	0.3	----	-0.3
Bureau of Customs	88.3	90.4	2.1
Bureau of the Mint	21.4	14.6	-6.8
Bureau of Narcotics	6.3	6.6	0.3
Bureau of the Public Debt	53.8	52.1	-1.7
Internal Revenue Service:			
Salaries and Expenses	19.0	20.1	1.1
Revenue Accounting and Processing	173.0	177.0	4.0
Compliance	473.2	501.0	27.8
Federal Tax Lien Revolving Fund	----	0.8	0.8
Total, Internal Revenue Service	665.1	698.9	33.8
Office of the Treasurer, U. S.	6.3	6.6	0.2
U. S. Secret Service	15.6	16.9	1.3
Total, Regular Annual Operating Appropriations	897.2	927.9	30.7

Note: Amounts are rounded and may not add to totals.

1/ Includes $18.8 million for proposed supplementals for Public Law and wage board pay increases, of which $5.1 million is to be derived by transfer from the Bureau of the Mint 1967 appropriation of $26.5 million, and $2.0 million for proposed program supplementals for the Bureau of the Public Debt, the U. S. Secret Service, and the Fund for Payment of Government Losses in Shipment. Does not reflect $509 thousand appropriation transfer to GSA for rental of general purpose space.

TREASURY DEPARTMENT

Comparative Statement of 1968 Budget Estimates
and House Allowances
(Dollars in thousands)

Bureau and Appropriation	1967 Appropriation (Adjusted 1/)		1968 Budget Estimate		Recommended in House Bill for 1968		House Bill Compared with 1968 Estimates		House Bill Compared with 1967 Appropriation		Restoration Request	
	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount	Av. Pos.	Amount
Regalar Annual Operating Appropriations:												
Office of the Secretary --------------	557	2/ $7,101	572	$7,317	552	$7,015	-20	-$302	-5	-$86	15	$228
Bureau of Accounts:												
Salaries and Expenses --------------	1,367	32,988	1,354	34,500	1,354	34,500	---	---	-13	1,512	---	---
Fund for Payment of Government Losses in Shipment ---------------	---	265	---	---	---	---	---	---	---	-265	---	---
Bureau of Customs --------------------	8,333	88,278	8,561	90,400	8,593	90,700	+32	+300	260	2,422	---	---
Bureau of the Mint:												
Salaries and Expenses --------------	2,205	21,393	1,443	14,600	1,373	14,000	-70	-600	-832	-7,393	70	600
Construction of Mint Facilities ----	---	---	---	---	---	---	---	---	---	---	---	---
Bureau of Narcotics ------------------	461	6,275	466	6,565	466	6,565	---	---	5	290	---	---
Bureau of the Public Debt ------------	2,513	53,794	2,349	52,084	2,349	52,048	---	-36	-164	-1,746	---	---
Internal Revenue Service:												
Salaries and Expenses --------------	1,484	3/ 18,959	1,531	20,060	1,524	19,960	-7	-100	40	1,001	---	---
Revenue Accounting and Processing --	21,201	3/ 172,966	21,493	177,024	21,493	177,000	---	-24	292	4,034	---	---
Compliance -------------------------	42,624	473,207	44,408	501,016	43,408	490,000	-1,000	-11,016	784	16,793	1,000	11,016
Federal Tax Lien Revolving Fund ----	---	---	---	800	---	500	---	-300	---	500	---	---
Total, Internal Revenue Service --	65,309	665,132	67,432	698,900	66,425	687,460	-1,007	-11,440	1,116	22,328	1,000	11,016
Office of the Treasurer, U. S. -------	751	6,348	772	6,588	772	6,588	---	---	21	240	---	---
U. S. Secret Service:												
Salaries and Expenses --------------	1,201	15,631	1,274	16,919	1,274	16,850	---	-69	73	1,219	---	---
Construction of Training Facilities-	---	---	---	---	---	---	---	---	---	---	---	---
Total, Regular Annual Operating Appropriations ----------------------	82,697	897,205	84,223	927,873	83,158	915,726	-1,065	-12,147	461	18,521	1,085	11,844

1/ Adjusted to reflect proposed supplemental appropriations included in House Document 83 and House Document 91.

2/ Reflects funds transferred from the Office of Emergency Planning for emergency preparedness functions of the Treasury Department. Beginning in fiscal year 1968, it is proposed that these funds be appropriated directly to the Office of the Secretary.

3/ Reflects the transfer of the program evaluation functions from the Reports Division (Data Processing) to the Planning and Analysis Division (Planning and Research).

INTERNAL REVENUE SERVICE

We requested appropriations of $698.1 million for the operating expenses of the Internal Revenue Service. This is an increase of $33 million over the 1967 requirements. The House Bill reduced this increase to $21.8 million. Stating the increases in terms of the three individual appropriations will highlight the budget actions we planned and show the House Bill allowances.

	Budget Estimate	House Bill
	(In millions)	
Salaries and Expenses ---	$1.1	$1.0
Revenue Accounting and Processing ------------	4.1	4.0
Compliance --------------	27.8	16.8
Total increase in operating expenses ---------------	$33.0	$21.8

We are requesting restoration of the House reduction of $11 million in the "Compliance" appropriation. The reductions applied to "Salaries and Expenses" and "Revenue Accounting and Processing" will be absorbed, we hope, through additional managements improvements yet to be identified.

Compliance Improvement

To meet the program requirements of all our bureaus within the level of estimates which we have included in the 1968 Federal budget posed some difficult decisions. The determination on funding for

the Internal Revenue Service reflects a particularly careful assessment of total Treasury responsibilities. We determined to trade off as many of the wants of the other Treasury bureaus as possible to provide resources to increase the tax enforcement effort. Additionally, within the Revenue Service we chose to lease equipment for purchase later rather than purchase in 1968 in order to provide still other funds for enforcement. As a result of these actions, you will note that $27.8 million -- 84% of the IRS increase -- 70% of the total Treasury increases requested -- was allocated to Compliance improvement. The Bureau of the Budget fully concurred in this allocation of resources.

Public Confidence

The Internal Revenue Service is effecting gross revenue collections at the phenomenally low cost of less than 50 cents per $100. It is able to do so principally because of an extraordinarily high level of taxpayer compliance. This high level has been achieved as a result of strong enforcement and taxpayer assistance programs -- over a period of many years. These programs have been successful in building public awareness and confidence that the tax laws are being fully and fairly enforced, that there is a reasonable expectation that cheaters will be detected and punished, and that the laws are being applied equitably and reasonably to all classes of taxpayers in all parts of the country. The public knows that compliance

assistance is available to those who need it, and that the tax officials are firm, fair, and honest. Without this public confidence our self-assessment tax system could not exist and we all know the disastrous consequences which would result to our Federal financial structure.

Additional Revenues

Under the President's Budget estimate, the Internal Revenue Service would produce over $5-1/2 billion in direct enforcement revenue from Service operations in 1968. This is an estimated increase of $450 million over 1967 -- or over 13 times the total increase of $33.8 million requested for the entire Service. We consider this direct revenue alone a highly profitable return on the proposed investment. But even more important than that is the indirect revenue which is engendered from the spreading effect of enforcement and taxpayer assistance programs. In a sense, what we have proposed here is an investment in "preventive maintenance." We must not allow public confidence to be lost or the high level of voluntary compliance to deteriorate.

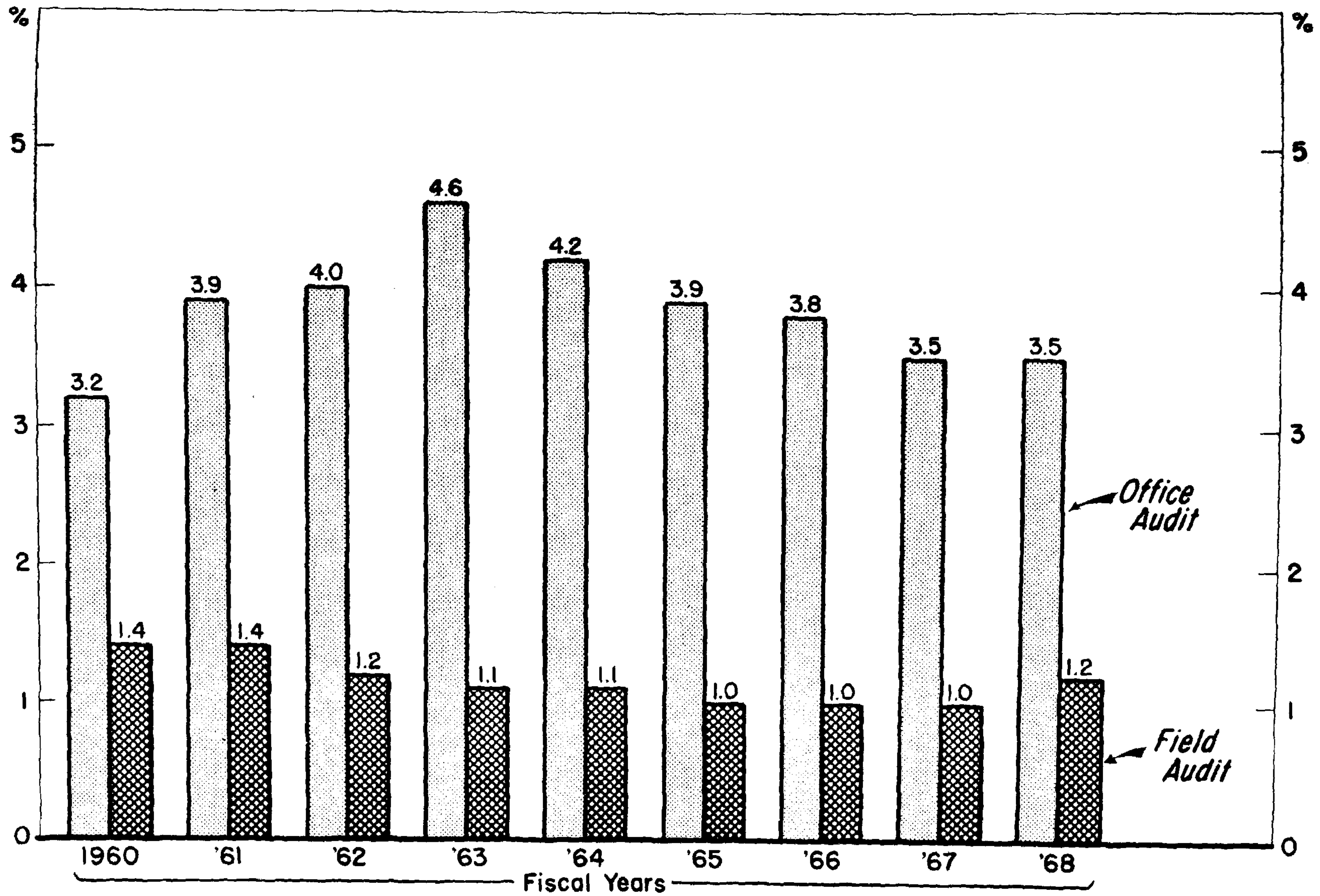
Drop in Audit Coverage

Tax return audit coverage in the higher income categories has dropped significantly over the past few years from the level achieved

in 1960 -- a level which we have considered to be a guidepost. This is because of the rising number of tax returns, and the increasing proportion of returns which are in the corporation, estate and gift, and higher income individual brackets. These higher income, more complex returns yield more revenue but take more time and require audit in the field. I have here a chart that depicts the gradual decline in the field audit coverage from 1.4 percent of returns in 1960 to 1.0 percent of returns in 1967. We wished to improve to 1.2 percent of returns in fiscal 1968. The chart also shows how we have tried to apply the less time consuming office audit techniques to as many returns as possible. Audits performed at the Internal Revenue Service offices, however, can involve only the simpler investigations of transportable records. Revenues from these cases amount to less than 10 percent of the revenues from field audit of the larger more difficult returns although the number of audits made in the office is very much larger.

The change in tax return workload is illustrated by these figures: Whereas from 1960 to 1970 the total number of returns filed is expected to increase by 20 percent, individual returns of adjusted gross income of $10,000 and above will increase 214 percent, corporation returns 63 percent, estate and gift tax returns, 94 percent.

PERCENT OF TAX RETURNS AUDITED



Office of the Secretary of the Treasury

Z-907

The returns that are increasing most rapidly are those that place the heaviest burden on field audit.

The audit program provides for the examination of certain percentages of the various types and classes of returns filed. Sheldon Cohen will explain the program when he appears before you. He will tell you that the drop in coverage of the higher income returns has also been due to increased thoroughness of audit (which pays off well in revenues and public confidence) and to the very limited manpower made available.

The request made here for increased funding for compliance operations will not restore the 1960 level of audit coverage, but it is essential to halt the downward trend. That downward trend, if not halted, is certain to lead to poorer compliance and a loss in revenue far in excess of operating costs saved.

I would like to caution against any notion that the Master File ADP System of tax return processing is so comprehensive that the additional revenues we seek will be achieved without this investment in enforcement. It is true that the Master File System has had a salutary effect on voluntary compliance. It has also helped to limit our manpower needs in the Delinquent Accounts and Returns area by facilitating offsets of refunds against delinquent accounts, by automatically issuing second notices of unpaid amounts due, and providing leads to persons not filing returns. But those

effects have already been considered and we have included no request for any manpower increase for collecting delinquent accounts or securing delinquent returns -- despite sizeable workload increases.

The Master File System is also assisting in improving the selection of returns for audit -- and that too has been taken into account in our request. But the Master File System, the computers, cannot interview taxpayers, examine books and records, and make technical judgments. It takes human beings of intelligence, honesty, and thorough training to audit tax returns, hear and resolve taxpayer appeals, make tax fraud investigations, and represent the United States in litigation. It is for these purposes that this request is submitted and it is because of the importance of accomplishing these purposes that I so strongly and earnestly endorse this request and suggest that restoration of these funds is a desirable and essential investment.

Finally, there should be no complacency regarding compliance levels, high as they are. Results of studies of errors on income tax returns show a continuing disturbing level of noncompliance and tax errors.

Technological Advancements

The amount of increase requested for the Revenue Service beyond that for effectual enforcement is principally to continue our efforts

to modernize revenue accounting and returns processing. It provides for putting individual master file processing on a full year basis in the final remaining regions of the country. It also includes extension of single font optical scanning to the six remaining service centers at a cost of approximately $1 million -- This the culmination of a testing program provided in fiscal year 1967 and conducted at the Southeast Service Center (Atlanta). It includes $2 million for the installation and lease of direct data entry systems at six service centers. This system, too, was described last year. Commissioner Cohen will give you the details on these newest electronic means to reduce costs and increase efficiency. Very briefly, however, what is involved is this:

Optical Scanning System

This equipment can read documents which we prepare ourselves and send out to the taxpayer for some information from him. When the documents are returned to us they can be re-read and the information transmitted direct to magnetic tape without an intervening punching process. The equipment will pay for itself within three years.

Direct Data Entry System

This system is being tested at the Southeast Service Center. It permits an operator to transcribe data from returns into equipment

which will automatically verify and convert it to magnetic tape without intervention of the key punching process. It results also in considerable savings in key punch, verification, and error resolution costs. The Service is not requesting funds to purchase direct data entry systems at the other six service centers in 1968, but simply to install them and lease. After testing, evaluation, and modification in the Southeast Center, delivery of the remaining six systems can be effected near the end of the fiscal year 1968. The $2 million requested will provide $1.6 million for installation costs and $400,000 for the lease.

Operation of the direct data entry system is expected to save about $1 million a year at each of the service centers. If the system meets our expectations, as I have every reason to believe it will, I will wish to request funds for purchase in the 1969 budget.

Not only will these technological advances pay for themselves and result in savings, but they offer a practical way of keeping up with the ever-rising flood of paperwork without adding enormously to the staffs of key punchers and verifiers.

BUREAU OF CUSTOMS

In 1968 the Bureau of Customs faces staggering increases in the inward flow of merchandise, carriers, and persons. We ask for

small increases in manpower to meet the demands of this workload and to strengthen foreign mail examination, where greatly increased revenues are certain to be realized.

The 1968 estimate for the Bureau of Customs was $90.4 million, an increase of $2.1 million over the 1967 requirements of $88.3 million. Action by the House provided an additional $300,000 for this appropriation, which was obtained by a reduction in the same amount from the new Federal Tax Lien Revolving Fund. No adjustment has been requested because we are keenly aware of Customs' problems, and, at this time, we have no experience basis with the Tax Lien Fund. Of the total increase, $1.6 million, is for costs built into the present program. These costs are for within-grade promotions, trainee-to-journeyman promotions, additional 1968 costs of program increases financed on a part-year basis in 1967, and the additional cost in 1968 of the last year's pay legislation.

Measurable Workload

Determining the level of funding for the Bureau of the Customs lends itself fairly well to the measure of resources provided and results obtained. Much of Customs workload is measurable and the measures reflect the long term trend of more and more persons and cargo entering the United States. We can point to the quadrupling of numbers of merchandise entries and the six-fold increase in Customs

revenues in the last twenty years -- accomplished with only a 5 percent rise in employment.

Within the restricted budget we did all that we could to provide additional resources for needs that are illustrated in the following examples: The volume of importations, people, and carriers entering the United States, all of which must be processed by Customs, continues to spiral upward at an almost unbelievably rapid rate. Aircraft arrivals from foreign countries are increasing at the rate of nearly 15 percent per year. Formal merchandise entries are going up 10 percent per year. During fiscal year 1966 the number of formal entries filed by importers total 2,011,000 and invoices received totaled 3,240,000 -- substantially more than estimated in our 1967 budget submission. The value of imports rose from $19.7 billion to $23.3 billion, an almost unprecedented increase of 18.2 percent. Similarly, Customs collections reached nearly $2.5 billion, up 20 percent over 1965. There is every indication that similar increases are now being experienced and will be experienced in the remainder of fiscal year 1967 and in fiscal year 1968. Workload increases of this magnitude cannot be processed without additional manpower.

During fiscal year 1966 more than 192 million persons arrived in the United States at our seaports, airports, and across our

land borders. More than 200 million people will cross our borders in fiscal year 1968, the equivalent of nearly seven people every second. Additional inspectional manpower is urgently needed to process this tremendous increase in arriving persons. Carriers arriving totaled more than 57 million in 1966 and are expected to reach 64 million in 1968. Mail from foreign countries is flooding Customs' facilities.

Mail Examination

The largest single program increase proposed is an intensification of foreign mail examination. Frequently the great volume of mail received makes impossible the examination of mail parcels containing merchandise valued as high as $50 even though the statutory limit is $10 for bona fide gifts and $1 for other merchandise. In this area we propose to increase our expenditures by $690,000, with a resulting revenue increase of at least $7,000,000. In addition to increasing revenue collections, the additional mail examination will provide an important increase in protection against the illegal introduction of narcotics and many other kinds of prohibited or restricted merchandise. Recently we have seen increased efforts to smuggle marihuana by mail.

For the first time, as an adjunct to the new Planning, Programming, and Budgeting System, funds are requested for a small Customs Headquarter's Program, Planning and Analysis Staff. A significant start in the program structure development of the system has been made, and we are now moving into the development of an information system to support the program structure.

BUREAU OF THE MINT

The estimate for Bureau of the Mint operating expenses for 1968 was $14.6 million -- a decrease of $11.9 million below the amount originally appropriated for 1967. The 1968 request was a decrease of $6.8 million from that appropriation as adjusted for a proposed transfer out of $5.1 million under the pay increase supplemental. This estimate was reduced $600 thousand by the House. A restoration for the full amount is requested.

The coinage program for the fiscal year 1968 called for production of 6.6 billion domestic coins. We believe that this is the lowest production that should be considered consistent with sound management of the overall coinage requirements of the United States. With the continued heavy production during the fiscal year 1967 of the new clad coins, it is expected that sufficient quantities will have been produced to permit substantial cutbacks in the dime and quarter denominations in 1968.

Inventories of coins in the Federal Reserve Banks and Branches have improved considerably in all denominations with the exception of the half-dollar and pressures on the Mints have been greatly relieved. These inventories were built up partially as a result of the program undertaken by the Mint to fill the urgent need for coins and by the simultaneous program of producing enough coins of the new alloy to replace entirely the subsidiary silver coin in circulation. At this time, the program to produce the needed replacement coin is about 50 percent complete. We should continue this program until we are assured that sufficient coins are available to conduct the Nation's business.

All required funds to complete the new Philadelphia Mint have been appropriated. Construction which began on October 1, 1965, is scheduled for completion in January 1968.

Mint Operating Fund

For some time we have had under consideration a method of financing for the Mint which would provide the flexibility to meet sudden changes in demand for coin. A change in financing was proposed by the General Accounting Office some years ago. This legislative proposal has been introduced under S. 1156 and referred to the Banking and Currency Committee. The 1968 Budget Document has been printed in terms both of the regular appropriations for Salaries and Expenses and Mint permanent accounts and the proposed "Mint Operating Fund."

If the proposed Mint Operating Fund has been approved prior to the beginning of fiscal year 1968, appropriate action will be taken on the request for the Salaries and Expenses appropriation.

UNITED STATES SECRET SERVICE

The estimate for the U. S. Secret Service for fiscal year 1968 was $16,919,000. The House provided $16,850,000 -- an increase of $1,219,000 over the requirements for fiscal year 1967. I'm sure that the Service can accept the challenge to find management improvements to offset this reduction.

In my appearance before this Committee last year, I noted the progress of the Secret Service in implementing the program increases approved by the Congress. Many of these objectives have been accomplished and the protective capabilities of the Service are being constantly refined.

Actions have been taken to comply with the recommendations of the Warren Commission and this budget provides support to continue development of the Secret Service in line with those recommendations. The selection and appointment of additional personnel and the initial training of the new Special Agents have been completed in the remarkably short period of eighteen months. Another program objective reached a milestone. The automatic data processing

system began operation in the first quarter of fiscal year 1967 and is being refined and developed to provide vital intelligence data to support the protective operations of the Service.

The enforcement activities of the Service have increased, consistently with the rising crime trends associated with other areas of law enforcement. Investigation of counterfeiting and forgery of Government obligations must counter a tide of rising volume in those criminal activities. This budget includes provisions for this essential support in training, protective specialities and added clerical assistance.

The White House Police have assumed additional security responsibilities that will require 37 additional policemen. This will increase the force to the statutory employment limitation of 250 police approved by the Congress.

BUREAU OF NARCOTICS

The estimate for the Bureau of Narcotics for fiscal year 1968 as approved by the President and the House is $6,565,000 -- an increase of $290,000 over the requirements for fiscal year 1967.

Since 1964, the illicit traffic in marihuana has been increasing rapidly. Arrest statistics indicate that the problem has doubled during the past two years. In an effort to cope with the increased problem, manpower has been diverted from the work on other illicit

narcotic traffic. In order to contain the narcotic traffic and attempt to restrict the growing problem in marihuana by utilizing our manpower in the most economical manner, funds are requested for the initial cost of automating records pertaining to permissive activities, for two-way radios and for dictating equipment. An increase of $100,000 has been earmarked for training of additional numbers of state and local narcotic officers at the Bureau of Narcotics Training School. This activity has met with enthusiastic response from state and local officials. It has much potential benefit in dealing with the narcotic problem.

The foreign enforcement program which strikes at the sources of supply of narcotic drugs sent to the United States continues to play an essential part in the total enforcement effort. Without the foreign program, there is little question that the narcotic problem in the United States would be far greater than it is today; however, we will evaluate our current effort before requesting further increases in this staff.

BUREAU OF ACCOUNTS

The estimate for the Bureau of Accounts for fiscal year 1968 as approved by the President and the House is $34.5 million, an increase of $1.5 million over 1967. Measurable workload for the disbursing and depositary receipt activities is almost 4 percent higher than 1967; but a one percent reduction in employment is nevertheless planned.

The increase of $1.5 million over 1967 includes $1.3 million to reimburse the Post Office Department for additional check mailings. The remainder of the increase is needed to finance the Bureau's own operating costs for added workload and additional functions. If the 1968 program were to be accomplished at 1967 operating costs, an additional $555,000 would be required. The 1968 estimate has been reduced, however, by establishing a goal of saving $555,000 through projected management improvements. These savings are expected to result from planned modifications in the depositary receipt system and further productivity advances in all other activities. As an example, a net reduction of 15 positions is planned for the disbursing activity despite a workload increase of over 14.1 million items. Productivity to be achieved in this function is projected at almost 5 percent above the 1967 rate.

We appreciate the encouragement of this Committee that has helped us to achieve continuing increases in productivity through the maximum use of automatic data processing equipment.

OFFICE OF THE TREASURER, U. S.

The estimate for the Office of the Treasurer of the United States for fiscal year 1968 is $6.6 million, an increase of $240 thousand over the amount required for 1967. This estimate was not changed by the House. The increase will provide 21 positions, such as claims examiners, accountants, and computer programmers who are

needed to keep abreast of the increasing workload related to the payment of checks. Eighty thousand dollars of the increase will be used to purchase electronic equipment now being rented.

Almost 70 percent of the appropriation requested for this Office will be used to fund activities concerned with (1) paying the increasing volume of Government checks, which now exceed half a billion, and reconciling such payments to reports of issues submitted by disbursing officers, and (2) processing the hundreds of thousands of claims which invariably arise due to the lost, theft, and forgery of Government checks.

The outstanding efficiency of the electronic data processing systems used to handle this enormous and constantly expanding workload coupled with increased employee productivity resulting from improved procedures has enabled this Office to handle effectively what would otherwise prove to be an almost insurmountable paperwork problem.

Computer automation is being further extended to encompass additional programs when found to be feasible. For example, advantage is being taken of the unique capabilities of card-to-tape converting equipment to record tax deposit information on reels of magnetic tape. These in turn will be furnished to the Internal Revenue Service for use in reconciling payments claimed by taxpayers with tax deposits. The equipment is also used to process about 200 million postal money orders for the Post Office Department on a reimbursable basis.

BUREAU OF THE PUBLIC DEBT

For the appropriation "Administering the Public Debt" we requested $52.1 million for fiscal year 1968. This appropriation finances the salaries and expenses of the Bureau of the Public Debt, estimated at $44.7 million, and the United States Savings Bonds Division, estimated at $7.4 million. The House reduced this estimate $36 thousand to apply against the cost of maintaining personnel in the Savings Bonds Division. No appeal is made for this item.

The estimates have been adjusted to include supplemental requirements of $1.9 million for the fiscal year 1967, transmitted by House Document No. 83. These additional amounts will provide for expanded promotion and sales of the Series E savings bond, for promotion and sale of the new savings instrument, for additional workload now being experienced in the current program, and for pay increase costs. A budget amendment for 1968 to cover these new costs is now pending in the Bureau of the Budget.

Work volume is increasing substantially. Volumes of issues for 1967 are now estimated to be 128.7 million which is an increase of 8 million over previous estimates. The volume of issues for 1968 is now expected to reach 164.7 million.

U. S. SAVINGS BONDS DIVISION

The U. S. Savings Bonds Program, which has always played a significant role in Treasury Department debt management, has assumed

even greater importance in view of the increased cost of the conflict in Vietnam and the added inflationary pressures on the economy. Tens of millions of Americans regularly invest in Savings Bonds thus providing the Treasury with a very important source of noninflationary financing. The total of $50.2 billion outstanding in Series E and H Savings Bonds as of December 31, 1966, represents 23 percent of the publicly held portion of the Federal debt.

The net gain in the value of bonds outstanding amounted to $964 million including accrued interest during 1966.

Since the interest rate was increased in February 1966 from 3.75 percent to 4.15 percent, sales of the Series E and H Bonds have increased 10.4 percent over the corresponding period in 1965. Sales of Series E Bonds during calendar year 1966 amounted to $4.5 billion, the highest sales for any year since 1946. Much of this increase in sales resulted from the enrollment of 2.2 million new regular Payroll Savers during the course of a year. Sales of Series E and H combined were $4.9 billion, or the highest since 1956.

The program continues to enjoy the voluntary support of business and industrial leaders, labor organizations, bankers, and of the various advertising media which annually donate more than

$50 million worth of time and space to savings bonds. This public service performed at no cost to the Treasury, makes the Savings Bonds Program compare most favorably with the cost of alternative financing methods.

OFFICE OF THE SECRETARY

I will have to ask that most of the reduction made in the funds for the Office of the Secretary be restored. Our principal increases were $228,000 for 15 new positions and operating expense costs. Ten of these new positions are for departmental direction of equal employment opportunities activities. We plan to establish an office whose functions will include the investigative, review and audit work involved in the enforcement of laws, Executive Orders and regulations relating to equal opportunity for employment in all areas. The major workload will be in connection with contractual arrangements, particularly those with banks serving as Government depositaries.

Two more positions are required for the workload of the Office of the Under Secretary for Monetary Affairs which has increased to the point that it cannot be handled with the small staff now available. This office has added responsibilities in the capital markets, securities analysis, participation sales, and other areas closely related to the financing and management of the public debt.

The remaining three positions are required in the administrative service area to handle increased workload.

We are requesting that $228,000 of the $302,000 reduction made by the House be restored. The remaining $74,000 was a request in our appropriation for Civil Defense Mobilization functions. We understand from the House Report that these will be funded from a single Government-wide appropriation

SUMMARY

In conclusion let me emphasize the serious need for restoration of the three items of House reduction of which I have spoken: The $11 million for "Compliance" Internal Revenue Service; the $600 thousand for the Bureau of the Mint, and the $228 thousand for the Office of the Secretary.

The increase of $27.8 million for "Compliance" Internal Revenue Service appears to be a large increase for a single year, but at the time we required large sums to automate our processes and establish the master file the audit phase of the work could not receive the resources needed. We all agree that the automation was essential and has paid handsome dividends both in additional revenues and in manpower savings. It is now necessary to meet the audit workload imposed by greater and greater numbers of returns and larger and more complex returns. Commissioner Cohen will tell you that he has completed studies showing the close correlation between accuracy

in the return made and the taxpayer's expectation of audit.

I am pleased with the reputation of the Internal Revenue Service for efficiency and I am completely confident that the restored funds will be prudently and effectively administered.

The Bureau of the Mint has overcome the coin crisis which we faced two years ago. I appreciate the assistance of this Committee in that difficult period. There is some danger in not completing our goal of an inventory that is sufficient to all of the outstanding subsidiary silver coin. Restoration of the funds for the Mint will provide additional protection against a sudden withdrawal of silver coin from circulation.

In the Office of the Secretary we must assume new responsibilities and accept added workloads. These duties will have to be performed. My staff at the current level cannot adequately meet all the demands.

CONCLUSION

Treasury bureaus are facing a very difficult year with the funding levels we are requesting. Principal officers are prepared to appear before you to explain their programs in the detail you may wish. This completes my overall statement on the Treasury's 1968 budget estimates. I would like to make a comment on the 1967 supplemental requests and then I will be pleased to answer questions and to discuss this budget and Treasury operations generally.

1967 SUPPLEMENTAL

In my statement I have compared our 1968 budget requests to the 1967 amounts appropriated to date and proposed supplementals included in House Documents Numbered 83 and 91. I would like to provide a table which shows the derivation of these amounts. These supplemental requests will provide funds to meet the cost of Public Law 89-504 for classified employees, Public Law 89-810 for White House Police, and costs of certain wage board rate increases, and additional program requirements for the Secret Service and the Bureau of the Public Debt. They also will include an item to restore the Fund for Payment of Government of Losses in Shipment, administered by the Bureau of Accounts.

I have previously discussed the additional program reqirements for the Bureau of the Public Debt. The additional program requirements for the Secret Service will provide for the cost of reimbursing employees for moving expenses provided by Public Law 89-516 and for increased costs of protective travel.

TREASURY DEPARTMENT
Statement of Pay Costs and Supplemental Requests
Fiscal Year 1967

	Program Requirements	Total Pay Costs	Amount of Pay Costs Absorbed	Supplemental Requested
ice of the Secretary --------	---	$181,250	$54,250	$127,000
eau of Accounts:				
alaries and Expenses --------	---	290,756	290,756	---
nd for Payment of Government Losses in Shipment ---------	$265,000	---	---	265,000
au of Customs -------------	---	3,175,000	690,000	2,485,000
au of the Mint ------------	---	955,123	955,123	---
au of Narcotics -----------	---	172,000	35,000	137,000
au of the Public Debt ------	1,364,000	536,000	---	1,900,000
rnal Revenue Service:				
laries and Expenses --------	---	525,000	229,000	296,000
venue Accounting and Processing ----------------	---	4,106,000	606,000	3,500,000
mpliance ------------------	---	12,756,000	1,649,000	11,107,000
ce of the Treasurer --------	---	206,500	206,500	---
Secret Service -----------	389,000	614,000	---	1,003,000
llaneous and Trust Fund ounts --------------------	---	619,505	619,505	---
Subtotal ----------------	2,018,000	24,137,134	5,335,134	20,820,000
ption by transfer from the eau of the Mint to Compliance, ernal Revenue Service ------	---	---	5,107,000	-5,107,000
Pay Costs and Adjusted plemental Requirements -----	2,018,000	24,137,134	10,442,134	15,713,000

30, 1967

TREASURY DEPARTMENT

WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, April 3, 1967.

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 January 5, 1967, and other series to be dated April 6, 1967, which were offered on March 29, 1967, were d at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, ereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing July 6, 1967		:	182-day Treasury bills maturing October 5, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.002	3.948%	:	97.988 a/	3.980%
Low	98.990	3.996%	:	97.967	4.021%
Average	98.995	3.976% 1/	:	97.979	3.998% 1/

a/ Excepting 1 tender of $1,000,000
13% of the amount of 91-day bills bid for at the low price was accepted
15% of the amount of 182-day bills bid for at the low price was accepted

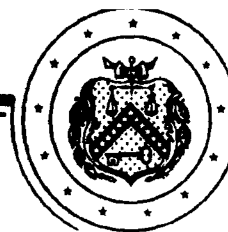
TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

ict	Applied For	Accepted	:	Applied for	Accepted
n	$ 22,284,000	$ 12,244,000	:	$ 12,095,000	$ 2,095,000
ork	1,680,179,000	890,768,000	:	1,482,240,000	798,240,000
delphia	28,654,000	16,654,000	:	13,328,000	9,748,000
land	29,815,000	29,515,000	:	46,641,000	17,391,000
ond	14,886,000	14,886,000	:	2,841,000	2,841,000
ta	47,148,000	31,248,000	:	34,393,000	21,393,000
go	158,851,000	108,501,000	:	116,866,000	52,866,000
ouis	46,334,000	34,103,000	:	19,084,000	10,584,000
apolis	23,456,000	19,021,000	:	11,782,000	7,457,000
s City	32,479,000	32,479,000	:	9,382,000	9,382,000
s	33,624,000	21,754,000	:	14,925,000	8,925,000
rancisco	134,833,000	89,012,000	:	100,346,000	59,816,000
TOTALS	$2,252,543,000	$1,300,185,000 b/		$1,863,923,000	$1,000,738,000 c/

ludes $289,683,000 noncompetitive tenders accepted at the average price of 98.995
ludes $96,909,000 noncompetitive tenders accepted at the average price of 97.979
se rates are on a bank discount basis. The equivalent coupon issue yields are
8% for the 91-day bills, and 4.15% for the 182-day bills.

F-867

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 3, 1967

FOR USE IN MORNING NEWSPAPERS OF
TUESDAY, APRIL 4, 1967

Secretary Fowler today announced the appointment of James Pomeroy Hendrick as Special Assistant to the Secretary of the Treasury (For Enforcement).

Mr. Hendrick will supervise or coordinate Treasury law enforcement activities and direct the Treasury's participation in the President's program to abate crime. The Treasury has the most extensive law enforcement establishment in the government.

Mr. Hendrick will have direct supervision over the U. S. Secret Service, the Bureau of Narcotics and the Office of Law Enforcement Coordination (including the Treasury enforcement school). As the principal adviser to the Secretary on all law enforcement matters, he will coordinate all enforcement activities of the Treasury and provide policy and technical guidance for law enforcement operations of the Bureau of Customs and the Internal Revenue Service.

Since June 1962 Mr. Hendrick has been Deputy Assistant Secretary of the Treasury with supervisory responsibilities in the fields of Customs, Engraving and Printing, and the U. S. Coast Guard. For 9 years previously he served in a number of senior Treasury positions in these same fields.

Before joining the Treasury Department, Mr. Hendrick was actively involved in the initial formulation of U. S. policy both in the United Nations and the Marshall Plan. From 1948 to 1953 he was with the Economic Cooperation Administration and successor organizations and for 2 years previously with the Department of State serving as principal adviser to Mrs. Franklin D. Roosevelt both in the United Nations General Assembly and the Human Rights Commission.

From 1941 to 1946 Mr. Hendrick was with the War Department first as a civilian employee and later in a military capacity. He rose to the rank of Colonel and served a tour of duty as Assistant to the late Robert P. Patterson,

F-868

Under Secretary and later Secretary of War, who awarded him the Legion of Merit.

Before entering government service Mr. Hendrick practiced law with the firm of Winthrop, Stimson, Putnam & Roberts in New York City.

Mr. Hendrick was born in Wainscott, New York in 1901. He graduated from Groton School, Yale University (BA. 1923) and Yale Law School (LLB. 1927) and also attended Corpus Christi College, Cambridge, England, in 1924. He was an editor of the Yale Law Journal.

Articles by Mr. Hendrick on the subjects of Customs and Human Rights have been published in the American Journal of International Law, the Department of State Bulletin and Scribner's Dictionary of American History.

Mr. Hendrick is married to the former Elinor Sullivan. They have two sons, Arthur and Robert, and one daughter, Alice (Mrs. James Sutton Hardigg).

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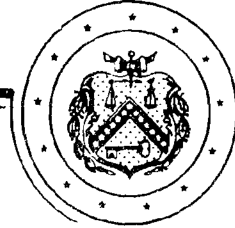
REASURY DEPARTMENT



WASHINGTON, D.C.

April 4, 1967

JR IMMEDIATE RELEASE

Secretary of the Treasury Henry H. Fowler today sent the following etter to Senator Russell B. Long.

April 4, 1967

Dear Senator Long:

This is in response to your request for the Treasury's views on proposals to repeal the Presidential Election Campaign Fund Act of 1966.

Enactment of the Long bill, after public hearings at which various proposals were presented, was the first tangible step toward solving the problem of financing ever-mounting political campaign costs. Its effect in forthcoming presidential elections should be to alleviate significantly problems which have long been the source of concern in the conduct of national political campaigns: reliance of political parties on small groups of wealthy contributors; and lack of certainty that sufficient funds will be available to those parties to assure the full and free public discussion of issues necessary for an informed electorate.

Clearly we should not discard a law which has the potential of making a significant contribution to our political process without giving it a fair and reasonable trial.

Indeed, its passage has already precipitated much thoughtful study and public commentary directed toward improving the basic approach embodied in the Act. This public concern and awareness have been beneficial.

It has resulted in many constructive suggestions which merit careful consideration. For example, I understand that you have already proposed certain changes. The Comptroller General and the advisory committee appointed by him pursuant to the Act, are now studying this law and are in the process of developing regulations under it.

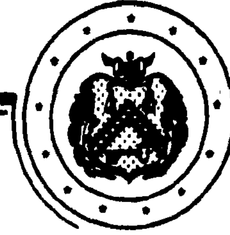
The public hearings which you intend to hold concerning possible amendments to this measure will provide an opportunity for the consideration of constructive changes. The Treasury will be pleased to participate in this effort and offer whatever assistance may be necessary.

Sincerely yours,

(Signed) Henry H. Fowler
Henry H. Fowler

The Honorable
Russell B. Long
United States Senate
Washington, D.C. 20510

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 5, 1967

OR 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 ?,300,000,000, or thereabouts, for cash and in exchange for reasury bills maturing April 13, 1967, in the amount of ?,302,903,000, as follows:

91-day bills (to maturity date) to be issued April 13, 1967, n the amount of $1,300,000,000, or thereabouts, representing an ditional amount of bills dated January 12, 1967, and to ature July 13, 1967, originally issued in the amount of .,000,205,000, the additional and original bills to be freely nterchangeable.

183-day bills, for $1,000,000,000, or thereabouts, to be dated ril 13, 1967, and to mature October 13, 1967.

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

Tenders will be received at Federal Reserve Banks and Branches to the closing hour, one-thirty p.m., Eastern Standard me, Monday, April 10, 1967, 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 mit tenders except for their own account. Tenders will be received thout deposit from incorporated banks and trust companies and from ponsible and recognized dealers in investment securities. Tenders m others must be accompanied by payment of 2 percent of the face unt of Treasury bills applied for, unless the tenders are ompanied by an express guaranty of payment by an incorporated bank trust company.

Immediately after the closing hour, tenders will be opened at th Federal Reserve Banks and Branches, following which public announce-ment 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 Treasur expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 13, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 13, 1967. Cash and exchange 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 hereunde need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

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TREASURY DEPARTMENT
Washington

STATEMENT OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON THE JUDICIARY
OF THE U. S. HOUSE OF REPRESENTATIVES ON H.R. 5384
FRIDAY, APRIL 7, 1967, 10:00 A.M., EST

Mr. Chairman, I welcome the opportunity to appear in support of the enactment of the bill introduced by Representative Celler as H.R. 5384, which I deem to be of great importance to the welfare of this country and its citizens. Mr. Sheldon S. Cohen, the Commissioner of Internal Revenue is here with me. He will discuss the Administration's proposals in more detail than I can.

Let me begin, if I may, Mr. Chairman, with a brief summary.

First, the main objective of this bill is to give the federal government control over firearms in the areas of interstate and foreign commerce where state governments have no powers.

Second, we view this legislation as part of a joint Federal-State effort to bring about a needed improvement in the nation's system of firearms regulation.

Third, the legislation we are proposing is in the spirit of creative Federalism that pervades President Johnson's March 17 Message to Congress on The Quality of American Government, in which the President said:

F-871

"Today the Federal system rests on an interlocking network of new relationships and new partnerships among all levels of government."

"Administration of programs which are the joint responsibility of Federal, state, and local governments should be strengthened;"

It is against that background, Mr. Chairman, that I offer the following observations:

The bill before you would repeal the Federal Firearms Act now codified as Chapter 18 of Title 15, United States Code, and would substitute a new and improved system of Federal regulation of interstate and foreign commerce in firearms under Title 18, United States Code. The Treasury Department would retain the responsibility of administering these regulatory controls.

H.R. 5384 implements legislative recommendations which the President set forth in his Message to the Congress of February 6, 1967. It would put substantially into effect the legislative program for Federal regulation of traffic in firearms strongly urged by the President's Commission on Law Enforcement and Administration of Justice in its February 1967 report titled "The Challenge of Crime in a Free Society."

This distinguished group of citizens, headed by Under Secretary of State Nicholas Katzenbach, our former Attorney General, included among its members nationally recognized leaders in the judiciary and in the fields of law, law enforcement, penology, and local government. The Commission's study found agreement among police administrators of major cities that easy accessibility of firearms is a serious law enforcement problem. The Commission found that state and local laws intended to control traffic in firearms tend to be nullified by the fact that firearms are too often available in neighboring jurisdictions under less restrictive legislation, or free from any regulation.

Accordingly, the Commission favored both the enactment by the states of laws prohibiting acquisition and possession of firearms by certain classes of persons who might be inclined to use them for criminal purposes, and the enactment of Federal legislation that would complement state and local laws and assist state and local governments in achieving their goals.

The bill before you for consideration is designed to reflect the Commission's recommendations. I should like now to state briefly my understanding of what it would do and,

in order to eliminate misconceptions, what it would not do.

Among other things, H.R. 5384 would:

(1) Channel interstate and foreign commerce in firearms through Federally licensed importers, manufacturers and dealers -- thereby prohibiting the commercial mail-order traffic in firearms (although licensees could ship interstate to nonlicensed persons rifles and shotguns lawfully purchased in person at the licensee's place of business and which the consignee could lawfully receive and possess at his place of residence);

(2) Prohibit sales of firearms by Federal licensees to persons under 21 years of age, except that sales of sporting rifles and shotguns could continue to be made to persons of at least 18 years of age;

(3) Permit a Federal licensee to sell a firearm (other than a rifle or shotgun) only to persons who are residents of the state where the licensee is doing business;

(4) Curb the flow into the United States of surplus military weapons and other firearms not suitable for sporting purposes;

(5) Bring under effective Federal control the importation and interstate shipment of large caliber weapons such as

bazookas and antitank guns, and other destructive devices;

(6) Provide for a licensing system with meaningful standards and annual fees somewhat higher than those now applicable under the Federal Firearms Act, so as to assure that licenses will be issued only to responsible persons actually engaging in business as importers, manufacturers, and dealers. The dealer's first year annual fee, set at a figure higher than the standard fee, would be available to help defray the cost of applicant investigations;

(7) Prohibit a nonlicensee from transporting into or receiving in his state of residence a firearm (other than a shortgun or rifle), purchased outside that state, or a rifle or shotgun which it would be unlawful for him to purchase or possess in that state or political subdivision thereof;

(8) Provide for adequate record-keeping by licensees (to include data indentifying purchasers) and for authority to furnish record information to state and local law enforcement authorities; and

(9) Retain the penalties now provided in the Federal Firearms Act for interstate transportation of firearms to or by felons and the interstate transportation of firearms which have been stolen or had their identifying number removed;

and in addition would punish interstate transportation of a firearm with intent to commit a felony therewith.

H.R. 5384 is not in any sense "anti-gun" legislation.

(1) The bill would not outlaw possession or use of firearms by law-abiding citizens.

(2) No requirement of this bill would be violative of the Second Amendment to the Constitution. Those opposed to firearms controls have created a misconception of this constitutional provision by asserting that the amendment provides that "the right of the people to keep and bear arms shall not be infringed." However, the complete amendment must be considered to determine the right granted to whom. I understand that the Attorney General will file a brief with this subcommittee on this point.

(3) The bill would not prohibit the acquisition of firearms for sporting purposes, or for any other legitimate use. Sportsmen will continue to be able to obtain firearms although under the bill they would need to procure them from local licensed dealers and manufacturers and thus be subject to the requirements of their respective state and local laws. Indeed, they can travel to another state and purchase a rifle or shotgun from a licensed dealer there and bring it home with them without interference if the purchaser's

state and local law does not forbid the purchase and possession of such a firearm.

Only two minor restraints are laid upon the sportsmen of this country. They will not be able to travel to another state and purchase a pistol or concealable weapon, and they will not be able to obtain a mail-order shipment from another state of a rifle or shotgun, unless they made the purchase in person and the purchase and possession is legal in their home state and locality.

Such minor inconveniences cannot be avoided if the legislation is to make it possible for the states to regulate effectively the acquisition and possession of firearms. Obviously, state authorities cannot control the acquisition and possession of firearms if they have no way of knowing or ascertaining what firearms are coming into their states through the mails or, in the case of concealable weapons, by personally being carried across state lines.

(4) The bill would not interfere with interstate transportation of firearms by the ordinary citizen hunter, marksman or householder. Neither would it preclude the interstate shipment of a gun to a licensee for adjustment or repairs, nor the return or replacement of such a gun by the licensee.

(5) The bill would not prohibit possession or use of firearms by those too young to purchase them. It is recognized that some parents may wish their minor children, who are sufficiently mature to be entrusted with them, to enjoy the use of firearms for recreational purposes.

(6) The restriction on imports would not preclude the importation of all surplus military rifles. Some of these weapons are suitable for or readily adaptable to use in hunting and could be brought in for that purpose.

(7) The bill would not interfere with activities of collectors of antique firearms. "Antique firearms," as defined in the bill, are not subject to the bill's controls since they are specifically excluded from the definition of "firearm."

As I have already indicated, the major purpose of the bill is to institute Federal controls in areas where the Federal Government can and should operate, and where the state governments cannot, the areas of interstate and foreign commerce. Under our Federal constitutional system, the responsibility for maintaining public health and safety is left to the state governments under their police powers. Basically, it is the province of the state governments to determine the conditions under which their citizens may acquire and use firearms. I would emphasize that it is one of the important objectives of this legislation to strengthen and make more effective the exercise of the powers of the state -- and local -- governments to regulate the sale of firearms in the public interest. I expect this Federal legislation to inspire more adequate state and local legislation -- and to make that more adequate non-Federal regulation enforceable where it is now all too easy to evade and will always be easy to evade in the absence of such Federal regulatory controls as H. R. 5384 sets up.

The bill would correct serious weaknesses of the existing Federal Firearms Act concerned with licensing and record keeping. Under existing law, anyone other than a felon can, upon the mere allegation that he is a dealer, and open payment of a fee of $1.00, obtain a license. Some 104,000 dealer licenses were outstanding as of January 1, 1967. Approximately 25 per cent of these were held by people not actually engaged in business. The purpose of licenses by these people puts them in position to obtain personal guns at wholesale or to avoid laws that prohibit mail shipment of concealable weapons and prohibit shipment into states that require purchase permits. This is a wide open situation in which licenses can be obtained by irresponsible elements, thus facilitating the acquisition of weapons by criminals and other desirables. The bill before you, by increasing license fees and imposing standards for obtaining licenses, will go a long way toward rectifying this situation. Commissioner Cohen, whose organization is responsible for the administration of the Federal Firearms Act, will discuss this aspect in more detail. He will also supply facts and figures illustrating the problems encountered in enforcing existing law because of incomplete or inaccurate licensee

records and the need for more effective record-keeping requirements.

This bill cannot, of itself, eliminate crime. However, let us not lose sight of the fact, stated by the President in his February 6 Message to the Congress, that "Any effective crime control program requires the enactment of firearms legislation. * * * This legislation is no panacea for the danger of human irrationality and violence in our society. But it will help to keep lethal weapons out of the wrong hands."

Today, the people of the United States are living under the most nearly ideal conditions ever achieved by any society. Yet, their peace of mind and security is threatened by the spreading cancer of crime and juvenile delinquency. It is absolutely essential that steps such as those proposed in this bill be taken to bring under control one of the main elements in the spread of this cancer, the indiscriminate acquisition of the weapons most frequently utilized in crimes of violence.

Right now, any person can acquire firearms with ease. This includes criminals, juveniles without the knowledge or consent of their parents or guardians, narcotic addicts, mental defectives, armed groups who would supplant duly constituted public authorities, and others whose possession of firearms is similarly contrary to the public interest. This situation is a matter of serious national concern.

The Treasury Department's experience with the Federal Firearms Act has resulted in a feeling of frustration since the controls provided by it are so inadequate. The drafters of H. R. 5384 had in mind these inadequacies and have, I believe, designed a bill which, when enacted, will provide effective regulation while presenting a minimum of inconvenience to the law-abiding citizen in the acquisition, ownership and use of firearms for legitimate purposes. These light restraints are surely a small price to be borne by sportsmen gun owners when weighed against the potential benefits to the citizenry generally.

There are indications that those opposed to additional firearms regulation will assert that the present Federal

statutes controlling firearms are adequate, but that these statutes are not adequately enforced. Thus, it will be inferred that any present deficiencies in firearms controls result not from lack of statutory authority, but from lack of proper enforcement. Let me remind you that the Attorney General has already advised the Subcommittee that existing Federal firearms laws are largely ineffective and inadequate. Within these recognized limitations, I can assure you that the Treasury Department has vigorously enforced the provisions of the present National Firearms Act and Federal Firearms Act. Commissioner Cohen will offer statistics covering some aspects of the firearms enforcement program.

As the President so aptly stated: "To pass strict firearms control laws at every level of government is an act of simple prudence and a measure of a civilized society. Further delay is unconscionable." I strongly urge that this Committee report H. R. 5384 to the House of Representatives at an early date.

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TREASURY DEPARTMENT
Washington

FOR USE IN MORNING NEWSPAPERS OF
TUESDAY, APRIL 11, 1967

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE
ANNUAL MEETING OF THE KENTUCKY CHAMBER OF COMMERCE
BROWN HOTEL, LOUISVILLE, KENTUCKY
MONDAY, APRIL 10, 1967, 7:00 P.M., EST

THE USES OF TAX POLICY

I am truly glad to be back in Louisville tonight, and particularly happy to be accompanied to your distinguished gathering by Congressman John Watts. He is one of the most influential and respected members of the Congress, and I can testify that in his execution of his duties as a member of the House Ways and Means Committee he is one of the most informed Members of the House. I prize his advice and I value his friendship. However, since he doesn't always agree with the Treasury, don't blame him for my mistakes.

Tonight I want to talk to you from the viewpoint that you, as representatives of private enterprise, and I, as a representative of your government, share together as partners in the responsibility for progress in our nation's affairs -- and particularly for its economic progress. One of the personal beliefs to which I adhere very strongly is that there can be no true progress in America unless it is based on a true partnership between the national government and the private sector -- business, labor, finance and agriculture.

For my part, I feel that this partnership is working out very well indeed. But, lest I be accused of special pleading to prove this, let me, before I turn to my specific subject for this evening, cite you some evidence from two organs of public opinion which are not always necessarily in agreement with the views of this Administration -- the *New York Times* and the *Wall Street Journal*.

The New York Times, in its Sunday Magazine of March 19, 1967, notes that the manufacturing capacity of the United States has doubed since 1951. We have added as much in the way of new plant and machinery in the last 15 years, says the article, as we built during the first 150 years of the nation's industrial history. And we may well double that capacity, says The Times -- and the actual output -- again in another 15 to 20 years.

The Wall Street Journal, in a January 31, 1967 article, said, and I quote:

> "In one sense, there is an almost monotonous sameness about the country's economic record in recent years.
>
> "Business has become better and better and better. Employment has gone up and up, American affluence, already the envy of foreign lands, has grown and grown and grown."

This is true. The threat of economic stagnation -- that used to plague our economy with slow growth and recurrent recessions and cause our foreign friends and enemies to think that the United States and the free enterprise system were losing their drive -- is no more. It has disappeared in the wake of 74 months -- over six years of dynamic growth.

To give you a picture of how well our industrial giant is progressing, let me cite some familiar economic indexes covering the recent past. In a period of three years under President Johnson's Administration, civilian employment -- that is, new and additional persons at work -- has increased by 5 million, 133 thousand -- a figure which nearly matches the employment gain of the entire previous eight years. The additional numbers of persons at work in the last three years exceeds the total employment increase from 1953 to 1961. The unemployment rate during thre three-year period decreased by 1.9 percent, as against an increase of 1.3 percent in the previous eight years. The real Gross National Product, in 1958 dollars, increased by about

$97 billion, not too far from the $113 billion of the previous eight years. It is as though we had annexed the rate of the output of economies of the present size of Italy and the Netherlands in the last three years.

There are three other figures which are closer to home for you: real per capita disposable income, in constant 1958 dollars, increased by 281 dollars in that three-year period, as against 218 dollars for the previous eight years. Industrial production increased by 26 percent, in the three-year period as against a 29 percent increase during the preceeding eight years. And corporate profits after taxes increased during the shorter period by $15.3 billion as against a $6 billion increase for the entire previous eight year figure.

I think these illustrations tend to show that our partnership in this country is working out pretty well.

My subject tonight is "The Uses of Tax Policy." And I am fully aware that any subject dealing with taxation -- particularly when discussed on a day which falls so close to April 15 -- involves some very tender feelings.

Let us all take some consolation, however, in some little-known facts: In the past five years, we have had personal and corporate income tax cuts averaging 20 percent. In 1962 with the legislative enactment of the investment tax credit and the liberalization of depreciation, new and powerful incentives for investment were provided. In 1965, over 200 separate items had excise taxes removed from them. All told, the tax reductions effected in that period will save taxpayers nearly $23 billion a year at fiscal 1968 income levels.

Largely as a result of these tax reductions, the U.S. today enjoys the lowest tax burden of any major industrial nation in the world. Again, this is not my own figure, but that of the Organization for Economic Cooperation and Development, representing the industrialized nations. The OECD's estimates show that as a proportion of total national production the citizens of France are paying 38.5 percent in taxes. The Germans are paying 34.4 percent. In Italy the figure is 29.6 percent. In Great Britain it is 28.6 percent. And, finally, lowest on the list, the U. S. pays 27.3 percent. And this is for taxes at all levels of government -- Federal, state and local.

I feel, in brief, that our federal tax policy can be used to help achieve what all of us want: continued prosperity, price stability and growth for the United States. I share the views of the distinguished Chairman of the House Ways Committee, the Honorable Wilbur Mills, who defined the problem very ably in a recent speech, from which I quote:

> ". . . surely we <u>can</u> all agree that the <u>primary</u> or <u>overriding</u> role of the Federal tax system is to raise in a fair and equitable manner the necessary revenues without which government cannot operate. At the same time there also is a widening agreement that with moderation our tax system can also be used to provide economic stability and growth for the private economy."

With this background, I want to focus my remarks tonight on several areas in the use of federal tax policy which are of immediate and basic interest to all of us. They are:

> <u>First</u>, the need for a flexible tax policy in dealing with sharp adjustments up and down in the economy as a result of war, recession or other substantial de-stabilizing influences, giving rise to conditions where resort to flexible fiscal and monetary policy is the alternative to drastic measures of government control or intervention or suffering severe economic illnesses.
>
> <u>Second</u>, the need and prospects for tax reform in the near future, and,
>
> <u>Third</u>, the longer-range outlook for tax rate realignment and reduction at a time -- whenever it may be -- when we can look beyond the demands of the situation in Southeast Asia.

Indeed, a rapidly changing pattern of tax policy characterized the other experiences along with direct controls.

You will recall that just before the Korean War, Secretary of the Treasury Snyder proposed a reduction in excise taxes which passed the House in a bill that would have reduced excise taxes by about one billion dollars. Then the Korean War intervened, and a bill passed with a $5 billion tax increase, and instead of there being any reduction of the excise taxes, they were maintained and increased.

So, changes in circumstances quite properly justify changes in fiscal and monetary policy. Policies cannot be static in a world as rapidly changing as ours. We must adapt them to meet new problems and needs. This, I believe, is what we have done.

To illustrate specifically, let me refer briefly to the Tax Adjustment Act of 1966, the suspension and restoration of the investment tax credit, and the President's proposal for a temporary six percent surcharge on existing income taxes.

The accomplishments of the Tax Adjustment Act, since it was passed early in 1966, have been somewhat obscured by the daily shuffle of headlines. This legislation increased the revenues needed for the Vietnam War in 1966-67 by a total of about $6 billion. In so doing, it introduced graduated withholding taxes on individual taxpayers and shortened the previously-scheduled transition period to put corporate tax payments on a pay-as-you-go basis comparable to that affecting individuals.

The suspension of the investment credit last Fall was not a revenue measure. It had a specific and limited objective -- to dampen the excessive boom in the market for capital goods, with its inflationary impact leading to high interest rates and damage to our balance of payments in the form of heavy imports of machinery. The excessive boom is now over and there is no reason for continuing the suspension. The President recommended it be lifted and the Congress is acting.

It has been suggested in some quarters that the fiscal, monetary and budgetary proposals of the Administration in the last eighteen months present to the American public a posture of an alternating or gyrating economic policy. The short answer is that the unusual demands of the war in Southeast Asia, coming on top of a burgeoning economy, gave rise to the need for a flexible use of fiscal and monetary policy.

There is a marked distinction to be made between the present situation and our earlier experiences during World War II and Korea, periods when direct controls -- price, wage and salary controls, priorities and allocation of materials and facilities to restrict civilian demand -- were used in order to expand production and keep the economy from getting out of bounds.

It was my privilege to participate in the mobilization programs of World War II, and to be in charge of the Defense Production Administration and the Office of Defense Mobilization in the latter part of the Korean War. I know from first hand experience how confining and burdensome the direct controls can be to any business, and how, in those periods, small businesses and new businesses were clearly at a disadvantage.

In the current situation, dealing with Vietnam, we are proceeding generally within the framework of a free market economy, in which there is an absence of the direct controls that were used in the other two experiences. In the Vietnam situation, we have dealt with the economic aberrations that are always a consequence when there is a rapid increase in demand by relying on a flexible use of fiscal and monetary measures to permit us to keep a free enterprise economy unmarked by direct government controls.

I want to make it clear that I have no apologies in saying in September, "Let us suspend our investment tax credit," and, in March, "Let us put it back."

This is precisely one of the examples of the use of fiscal policy that make it possible for the private sector of the economy to make the necessary adjustment without dr. direct government controls. And I think one of the prime accomplishments during this particular period has been the fact that the adjustment of this strong and well-balanced economy was accomplished within the context of flexible monetary and fiscal restraint, and without the imposition of price, wage and material controls such as were found in past similar national emergencies.

When one speaks of tax reform, I suppose it is inevitable that the phrase should call to mind the existence of inequities in a tax system and their elimination. Quite apart from the existence of such inequities, however, I like to think of the subject of tax reform in a positive sense; in the sense that tax reform should truly mean the way in which we can reduce the rates of tax as well as providing for both equity and simplicity.

The Revenue Acts of 1962 and 1964 marked a real turning point in tax reform in a structural, as well as an "economic" sense. The revenue raising or base broadening structural changes which had come about as a result of all the Revenue Acts passed prior to the 1962 and 1964 Acts -- from the year 1940 on -- totalled only approximately $600 million. The total which was raised by such changes from 1953 to 1961 was less than $200 million. But the 1962 and 1964 Acts contained nearly $1.7 billion in so-called base broadening revenue raising changes. And at the same time, they not only increased the equity of the income tax system -- by eliminating or reducing some special preferences -- but they turned the increased revenues back into rate reductions and investment incentives for all. Thus, they accomplished a good measure of "economic" tax reform in addition to that which was achieved through net tax reduction.

Let me give you some examples of structural reforms occasioned by the 1964 Act. It included limitations on tax preferences accruing from group term insurance, bank loan insurance, sick pay exclusion, casualty loss deduction, utilization of personal holding companies, multiple properties for charging depletion, and realization of capital gains on quick sales of real estate in connection with excessive depreciation. It also eliminated deductions of certain State and local taxes which were difficult of uniform and equitable administration, as well as the dividend credit which was providing a great advantage for the large investor.

Many similar structural reforms could be cited in connection with the 1962 Act.

The six percent surcharge proposal, on the other hand, encompasses an overall, across-the-board fiscal measure designed to cope with the economic and budgetary situation as we anticipate it for the latter part of 1967 and throughout 1968, assuming the implementation of the President's other recommendations and the continuation of hostilities on their current scale in Southeast Asia. We need to pay for the increased cost of war projected for the next fiscal year. We will want to reduce our budgetary deficits in fiscal 1968 from the projected levels of fiscal 1967 if the economic outlook permits. We will certainly not want to risk a resumption of the monetary strain of tight money and a return to higher interest rates at that time and this will require that the Government's own demands on the credit markets be kept in bounds. The surcharge will help achieve these objectives.

I have tried to illustrate, by these examples, how tax policies can be used in times of substantial adjustment with positive results for sustaining high levels of employment and without a resultant damaging inflation.

And, of course, a flexible tax policy can be used to promote economic stabilization when the economy is threatened by recession as well as by inflation. However, due to the fact that we are enjoying the seventh year of a continually expanding economy, we have not had occasion to use a "quickie" tax cut for that purpose.

I come now to the second of the three things I want to talk about this evening: the need for and the prospects of tax reform in the near future.

Later this year, the President's Message on Tax Reform will be submitted to the Congress. In his Economic Message to the Congress for this year, the President hailed the American tax system as one in which we can take pride and one which, in most of its elements, is unsurpassed by any other tax system in the world today. He also made it clear that the system can be -- and should be -- improved.

It seems clear that our tax laws, as they stand today, impose burdens on some of our citizens which are clearly unfair. In other cases, they grant special preferences to individuals and groups which are just as clearly inequitable

imbedded in the Constitution, it is not the experts but the elected representatives who decide the shape and substance of these reform proposals. The President submits his recommendations in a Tax Message. With the Constitution providing that revenue proposals originate in the House, it is the function of the House Ways and Means Committee, of which Congressman Watts is a key member, to make the initial determinations which are voted upon by the entire House, reviewed and revised by the Senate Finance Committee and the entire Senate, then become the subject of a conference between ranking members of the two committees and finally passed back to the President for his approval or rejection.

Much remains to be done by all of these groups and bodies, following the traditional processes. For example, while much attention has been devoted to the income tax structure, corporate and individual, and to the inequities of the former crazy-quilt pattern of excise taxation, the whole realm of estate and gift taxation has not had any major legislative review or overhaul since 1942. Rate schedules and basic exemptions in the estate and gift tax laws have thus remained unchanged for 25 years. Complexities and inequities in this important area have crept in through a long series of piecemeal changes by statutory amendments and court decisions. The present structure places a high premium on the form and timing of the transfer of property. A comprehensive reexamination of these provisions of the law to reduce the complexities of estate planning and correct rules which work inequities or induce taxpayers to dispose of their property in ways which they would not otherwise choose, is long overdue.

This comment by no means implies that the income tax structure could not still bear substantial improvement. Because we emerged from the period 1962-1964 with an improved tax structure, this is no reason why we should call a halt to future steps toward tax reduction and a more equitable and simplified tax structure which is more fully consistent with sustained full employment and vigorous growth. Our present system, however improved it may be over older ones, is still capable of stalling or holding back our economy at a "somewhat higher altitude." It still tends to take too large a proportion of the increases we have enjoyed over the past six years in personal and business income. We

The 1962 and 1964 Acts eliminated a good deal, but not as much as the President and the Treasury recommended, of the special preferences which led to an erosion of the tax base. The Act of 1964 also represented a commendable switch from the old pattern of opening even more loopholes in order to combat top-heavy rates on taxable incomes. It set the desirable design of the future -- the provision of necessary revenues at the lowest possible tax rates whenever tax reduction through base broadening opportunities are presented

The Act of 1964, however, was not our last major tax reform. In 1965, the repeal of the highly discriminatory and unfair system of selective excise taxes which had developed as emergency measures in World War II and the Korean War and even earlier, gave a substantial added measure of equity and simplicity to our tax system.

Indeed, in the Tax Adjustment Act of 1966 and the separate administrative measures taken last year to speed collections, the inequities of collecting from some taxpayers on a pay-as-you-go basis and from others on a deferred basis, were eliminated, and the tax system was greatly improved by the action.

For us to get to the point at which such beneficial actions as these can be taken, much hard work must be done. Chairman Mills made this abundantly clear in a recent speech in which he said, and I quote, " . . . tax reform requires a vast amount of preparatory work, both technical and in terms of education of the American people. Many of the reforms which were accomplished in 1964 actually represented the culmination of work which had been done quite some time before that date. . . tax reform cannot be achieved overnigh

Let us look behind that statement.

At the Treasury Department, an able and expert group of hard-working people, economists, lawyers, accountants and other specialists, led by Assistant Secretary for Tax Policy Stanley Surrey, has labored, and is laboring, to help provid suggestions for achieving the best possible system we need for the times. This team works together with a similar dedicated staff of experts which operates under the directic of the Joint Committee on Internal Revenue Taxation of the Congress. But, in the final analysis under our system,

local agency, are fixed to meet the issuing agency's interest payments and the amortization of the principal of the bonds. In other words, the corporation is in effect borrowing from the public, but obtaining a tax exemption for the interest. This means that the interest rate which the corporation obtains will be below the market rate which it would otherwise have to pay.

Now, more and more, this device is being used by corporations which are financially strong and quite capable of obtaining their funds through normal market channels. When they turn to the local issuing agency for these funds they -- and the local agency -- are getting into an arrangement which distorts the tax-exemption privilege and which, in the long run, simply forces the Federal tax system to support their financing. This is indeed a far cry from the original intent of the exemptions -- which was to encourage corporations which lacked capital of their own to set up businesses in areas of high unemployment, generally in rural areas.

In another example, there is no doubt whatsoever that there are abuses of the tax system by tax-exempt private foundations. Those foundations which are created solely to keep intact a family's control of a business enterprise are clearly distorting the original intent underlying the tax benefits and exemptions granted for charitable contributions and philanthropic organizations.

Now, I repeat: let no one take this recital of these particular examples, or others mentioned earlier, as an outline of the President's forthcoming tax reform proposals, upon which much preparatory work has been done on which there is still work in progress. I cite them only as evidence of the fact that tax reform, a complicated matter, has many facets that can be explored.

Despite all this, during the last five years we have made a strong beginning in the use of tax reform as the means of achieving what I feel we want to achieve -- the things I have stressed earlier: tax reduction, equity and simplicity.

have to seek to keep the tax structure's revenue capability from growing too fast -- as the private incomes and economic capacity of the nation enlarge, as I know they will.

In short, we must still go a far way if we are to rid our tax structure -- and our income tax in particular -- of its impediments to an efficient flow of capital, its unlike treatment of like incomes, and its excessive burdens on small incomes.

Let us remember, in considering the burdens of people with small incomes, that they represent the area of the tax brackets where the customers of business and agriculture live. The people with $10,000 a year, and less, account for almost 85 percent of all taxable returns. They are the people who will put a large part of any tax reduction into the stream of spending -- help create the healthy demands upon our economy which can call forth new techniques and technologies, create new jobs and make new investments profitable.

Moreover, we have become increasingly aware that tax reform must be responsive to changing situations.

Without in any way getting into a discussion of what the President might recommend, but solely to point up some of the thorny problems inherent in tax reform, let me cite some examples of inequities and economic distortion which arise from provisions of our tax laws which, however justified at the time of their enactment, have become subject to certain abuses.

Very often, of course, there are good business reasons for the creation of affiliated corporate groups. But the good reason for an affiliated group does not make sense as a good reason for giving that group multipe corporate tax exemptions. A single enterprise is involved. If it is divided into sub-groups which are called "subsidiaries," rather than divided into branches or divisions of the business,that does not rationally entitle the enterprise to be the recipient of a host of tax exemptions.

Similarly, changing patterns have occurred with tax exempt industrial development bonds, rapidly growing in numbers and amounts, and being sold, in effect, on the credit of a private corporation which has bought or leased a facility from the issuing local agency. The rents, or sales installments, which the corporation pays to the

The fact is that -- quite apart from the vicissitudes of the moment -- Vietnam or no Vietnam -- tax increases or tax cuts -- the American economy has reached a stage of strength, efficiency and power for good, the maintenance of which will depend, in great part, in the future, upon the wisdom with which all of us choose to use it.

And, I firmly believe, it is a very fortunate thing that this has come about during a period in which there is a broader acceptance by all of us -- in Government, in business, and in all walks of life -- of the responsibility for the general well-being that each one of us bears, individually and in our occupational and economic groups, for the conduct of our economic affairs and in the expression of our political will.

What will the future be like? No man alive knows the answer to that in any detail. But any sensible man will admit that there are three elements of great responsibility which lie ahead of us, as Americans, in at least the next ten years.

They are:

1. The defense of freedom and peace.
2. Preserving and strengthening the free enterprise system.
3. Joining with other nations who believe in these things in building a Greater Society of Nations, within which there will be opportunity for security and for self-expression.

For us to engage in these tasks means that our economy will have to operate close to its full capacity for production and growth. To achieve this full production and growth will mean full use of our manpower, full use of our equipment and management methods, full use of all of the technologies and techniques that management and labor can discover or invent.

We will have to continue to learn how to sustain a high rate of real economic growth, cutting down inflation as it might appear, and fighting any deflationary interruptions, with the tools at our command. Our tax policy will be one of the most powerful of these tools.

We know that any tax system, unless it is periodically reviewed and reformed, can become slipshod, can develop grave defects, such as those I have mentioned, and can become obsolescent in a way which can both act as a barrier to sound economic growth and at the same time shake popular faith and morale.

Your government does not intend to let this happen.

Now here is the third item on my agenda for this evening's talk: the longer-range outlook for tax rate realignment and reduction. We must look beyond the revenue consuming demands of resisting Communist aggression in Vietnam to the time when instead of devoting increased revenues to national security we can make a desirable allocation of the additional revenues that flow from economic growth under an existing tax structure between tax reduction, reduction of the public debt and increased government civilian expenditures.

This prospective decision gives rise to a number of vital economic and fiscal policy questions which are of the highest importance in the decade ahead. How can our tax policy be used, given a reasonable amount of peaceful times over the years in our immediate future, to continue and strengthen the long, healthy upward climb of the American economy? What influences can we expect will be brought to bear upon it from other economic sources?

These questions bring us back full circle to the Revenue Act of 1964 and its immediate aftermath which added a new, but little understood dimension to the importance of coordinating tax policy with other matters -- budget expenditures, monetary and credit policy, and debt management.

I ask you to look behind the jargon of the moment -- the talk of "the new economics" or "fiscal drag" or "fiscal dividend" or "gap analysis" or "policy mix," etc., and view this range of our national economic decisions as the late President Kennedy and President Johnson have viewed them.

President Kennedy once observed that our economic decision should involve not so much the clash of grand ideologies as the sober and dispassionate treatment of a marvelously productive modern economic machine.

But, let me return to the forecast of the Joint Economic Committee of the Congress: Very wisely, the study opens with a sensible warning, and I quote:

> "This higher rate of growth will not be achieved automatically, but will require improvements and adjustments in economic policies, both public and private, if it is to be achieved in a manner that does not generate undesirable inflationary byproducts."

In brief, to reach this level, or any other higher standard of living than we have now, we must have priorities. There will be, given the increased gross national product, an annual increase in public revenues. This dividend must be fed back in some part, and in some manner, to sustain the private sector which delivers it -- to feed the goose which lays the golden eggs.

To this end -- the maintenance of a strong economy free from repressive taxation -- we will want to adopt tax reduction, with emphasis upon rate reduction, as a conscious long-term policy. Only in this way can we avoid fiscal drag and ensure that the fiscal dividend payable out of growth can be reinvested in the "growth business" of our economy. Without this conscious determination, our economy can almost unaware be saddled with 1966 tax rate levels and an expanding public sector, decade after decade, so that it is constantly squeezed by a growing tax load in relation to a proportionately shrinking private sector which must, after all, pay for our defense, our consumer needs, and our public improvements.

In plainer words, at some point in the future there lies ahead of us the opportunity for tax rate reductions -- not today, nor tomorrow, nor, for all we know, next year or the one after it. That depends on the coming of peace in Asia. But the day will surely come when tax reduction will become an important economic step for us to take. We must be ready to take that step when the opportunity offers.

Already economic plans for the post-Vietnam period are being developed in the Executive Branch pursuant to an instruction by President Johnson in his Economic Message in January calling for a "major and coordinated effort to review our readiness." The first of six items on the agenda was the request "to consider possibilities and priorities for tax reduction."

I am not endorsing any particular forecast of any group of forecasters as the U. S. goal for the next ten years. Yet it is interesting to note that three such forecasts seem to point out requirements and conclusions that are remarkably alike.

In one instance, the National Planning Association report titled "Goals, Priorities and Dollars," done late last year, concludes that if we are to do what we want to do by 1975 we will need a gross national product by that year of over $1 trillion (in 1962 values) -- or more than half again as much as we have now.

Second, a study under the auspices of the Life Insurance Association of America calculates that we can maintain an orderl growth, in constant dollars, of 4-1/2 percent fron now until 1976, allowing for an annual average increase of about 1 percent in consumer and wholesale prices.

Now, over the past six years we have averaged an annual production increase in constant dollars of slightly less than 5 percent, while our economy absorbed large numbers of unemployed people and gave them jobs and put a great amount of unused production facilities to work.

And here is a third forecast for our economy for the period from now on: a study by the Joint Economic Committee of the Congress projecting U.S. economic growth to 1975. This study concludes that we have a potential for an economic growth rate of between 4 and 4½ percent per year between 1965 and 1975.

It is interesting to note that even if we average less growth over the next 10 years than we have over the past six, we would still be able to lift our gross national product to $1 trillion in 1975, and still be dealing in an American dollar which is the strongest and most stable unit of currency in the world.

Now, I repeat, I am not endorsing the conclusions of any of these studies as a national goal. But should this growth be reached, and I firmly believe it can be reached, it is likely that in 1975 the average American family can enjoy an income, in today's dollars, of something more than $10,000 annually compared to the approximately $7,000 of last year.

to get people to work -- to get the machine producing more. But when the economic machine is working at the high level of performance we can reasonably expect over the future years, we have to use great care and yet maximum flexibility in our approach to keep that growth at a sustainable pace -- not so fast as to induce inflation and not so slow as to invite stagnation or recession.

The action of tax policy toward maintaining a high growth rate, high productivity and high employment, along with reasonably stable prices, cannot do the job alone. It must be reinforced by expenditures and policies which will raise the quality of our products and increase our efficiency in producing them. I am referring to our need for increasing the skills of our workers through training programs, and the need for encouraging education, research and private technology.

The contributions of the millions of people in this country who are either unemployed or underemployed must be called forth. Their talents must be developed. Their education must be improved. This is primarily a matter of sheer morality; the very close secondary reason is that we simply cannot afford to go without the skills they can supply.

And some of our tax revenues must go toward expenditures for this purpose. We must accept this not as a burden, but as an opportunity.

. . . .

If there is one thing about taxation that we have learned, as Americans of this generation, it is that there is no such thing as a tax policy for all seasons. Conditions and needs change. Disaster overtakes those who are callous toward, or indifferent to, the signs of obsolescence in their businesses; so, with our economy, we must keep a weather eye open for the changes of the times and gear our tax system to fit them.

Now, let me make it clear that tax reduction does not necessarily mean corresponding revenue loss. From 1955 to 19 there was no significant tax reduction, yet budgetary receipt rose only $17.6 billion -- an increase of 29 percent. Yet in fiscal years 1961 through 1966, with individual and business income taxes reduced on an average of some 20 percent and mos Federal excise taxes eliminated, receipts increased by $26.9 billion, or 35 percent.

But the possibility of tax reduction -- at some point in our future -- is only one element to which we will have to address ourselves.

We must also seize opportunities to use the fiscal fruits of growth to reduce the national debt and its burden on the budget. Debt reduction, as well as debt management and monetary policy, has a role to play in holding down or decreasing the cost of carrying the debt, thereby releasing revenues for tax reduction or increased expenditur Moreover, like debt management, debt reduction can be handle in a manner that is stimulative to the private sector. It need not be associated with a restraint on the economy.

We must also look forward to increasing our expenditure for the public sector, for all of the worthwhile humanitaria programs and benefits of which our nation is capable.

The task is this: As our revenues grow, along with our gross national product, there is going to be a multitud of demands for the extra money. We must decide, calmly, carefully, patiently and skillfully, where it is to go. If we do everything that everybody will want to do -- if we appropriate all of it for expenditures which are more desirable than necessary -- we will miss the opportunity fo a better life, a more secure and happy life, for all of us the years ahead. This is why the concept of Federal expenditure control is an interrelated part of a sound tax policy for growth.

To make the most of our opportunity, we are going to n the virtues of restraint and prudence, and we are going to have to work, with patience and understanding, at complex tasks. When things are not going too well with our economy when times are tough, to use the vernacular -- when the economy is slack -- the people who guide it have pretty sim choices to make. There is nothing very complicated about t work which is done then. The job is to perk things up --

I can assure you here tonight that we will maintain a vigilant survey of economic developments in order to determine what tax actions are necessary. They will be prudently and carefully appraised and brought to the attention of the Congress to permit it the proper time for thorough evaluation and debate.

And as for the responsiveness of the Congress to changing economic conditions, and its ability to act responsibly, the Joint Economic Committee Report says:

> "Congress has the ability to act rapidly on tax matters and has demonstrated this ability on many past occasion."

Such responsible actions have time and again been demonstrated, most recently by the speedy consideration in both chambers of President Johnson's request for the restoration of the Investment Tax Credit on machinery and equipment purchases and the accelerated depreciation allowances for new buildings.

A tax structure is like an investment portfolio. It is not something which we can acquire, and then stow away in a safe and forget. It needs watching and revising.

The task of alert surveilance over our tax system, of using it as one of a series of measures to tend to that marvelous, productive machine -- the American economy -- is one that every responsible group, like your own, and every thoughtful citizen, must share with the government, in partnership, if we are to obtain the best results, the full promise, of the American economy in the decades ahead.

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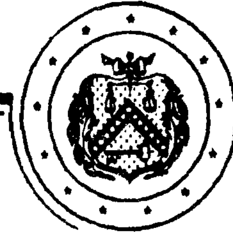
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, April 10, 1967.

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 January 12, 1967, and e other series to be dated April 13, 1967, which were offered on April 5, 1967, were ened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 183-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing July 13, 1967		183-day Treasury bills maturing October 13, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.047	3.770%	98.050 a/	3.836%
Low	99.033	3.825%	98.034	3.868%
Average	99.037	3.810% 1/	98.040	3.856% 1/

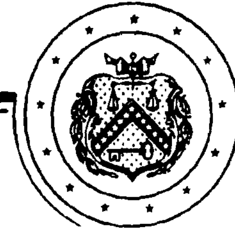
Excepting 1 tender of $4,055,000
% of the amount of 91-day bills bid for at the low price was accepted
% of the amount of 183-day bills bid for at the low price was accepted

TAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 22,792,000	$ 12,702,000	$ 25,682,000	$ 15,682,000
New York	1,743,702,000	782,759,000	1,388,183,000	688,323,000
Philadelphia	24,915,000	12,704,000	13,210,000	5,210,000
Cleveland	33,307,000	32,557,000	44,591,000	20,941,000
Richmond	18,374,000	18,374,000	3,762,000	3,762,000
Atlanta	64,933,000	45,813,000	34,107,000	17,101,000
Chicago	273,168,000	128,028,000	279,396,000	115,936,000
St. Louis	73,601,000	63,387,000	30,944,000	24,624,000
Minneapolis	22,397,000	19,277,000	13,172,000	11,307,000
Kansas City	40,287,000	40,287,000	11,463,000	11,463,000
Dallas	32,474,000	20,974,000	17,592,000	7,862,000
San Francisco	184,219,000	123,864,000	140,354,000	78,274,000
TOTALS	$2,534,169,000	$1,300,726,000 b/	$2,002,456,000	$1,000,485,000 c/

Includes $310,446,000 noncompetitive tenders accepted at the average price of 99.037
Includes $107,597,000 noncompetitive tenders accepted at the average price of 98.040
These rates are on a bank discount basis. The equivalent coupon issue yields are 3.91% for the 91-day bills, and 4.00% for the 183-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 10,1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MARCH

During March 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $75,279,500.00.

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F-874

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 10,1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN MARCH

During March 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $75,279,500.00.

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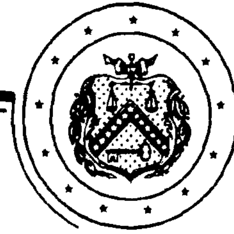
F-874

ΓREASURY DEPARTMENT



WASHINGTON, D.C.

April 12, 1967

?OR IMMEDIATE RELEASE

TREASURY DECISION ON PLASTIC CONTAINERS
UNDER THE ANTIDUMPING ACT

The Treasury Department announced today that it is issuing ı notice of intent to close its investigation with respect to ;he possible dumping of plastic containers from Canada manu- 'actured by Reliance Products Ltd., Winnipeg, Canada.

The notice, which will be published in an early issue of :he Federal Register, announces that the investigation is being :losed with a determination that these plastic containers are ıot being, nor likely to be, sold at less than fair value within he meaning of the Antidumping Act of 1921, as amended 19 U.S.C. 160 et seq.).

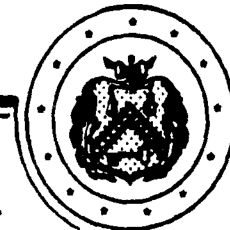
Two types of plastic containers were imported from that firm, ıamely industrial type and consumer type. Purchase price was found o be not lower than the adjusted home market price with regard to .ll except 5-gallon industrial containers. The 5-gallon industrial ontainers represented the bulk of the imports of this type.

Promptly after being advised of the existing margins as to hese 5-gallon containers, the manufacturer revised its prices and ave assurances that there would be no future sales at less than air value regardless of the disposition of this case. The complain- nt was advised of this and subsequently withdrew its complaint.

Appraisement of the above-described merchandise from Canada anufactured by Reliance Products Ltd., Winnipeg, Canada, will con- inue to be withheld pending further determination.

Imports of the involved merchandise received during the period anuary 1, 1966, through October 31, 1966, were valued at approxi- ately $58,000.

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 12, 1967

OR 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 Treasury bills maturing April 20,1967, in the amount of $2,302,437,000, as follows:

91-day bills (to maturity date) to be issued April 20, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated January 19,1967, and to mature July 20,1967, originally issued in the amount of $1,000,906,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated April 20,1967, and to mature October 19, 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, April 17, 1967. Tenders will not be received at the Treasury Department, Washington. Each tender must be for an even multiple of $1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e. g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

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

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Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 20, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 20,1967. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, APRIL 13, 1967

F-876

The Bureau of Customs announced today the following preliminary figures on imports entered for consumption under the absolute import quotas provided for in section 12.71, Customs Regulations, for coffee grown in nonmember countries of the International Coffee Organization for 12-month period beginning November 15, 1966.

COFFEE
(Green - In pounds)

Country	Established Quota	Total Imports as of Apr. 10, 1967
Bolivia	1,850,800	1,027,056
Guinea	1,454,200	Quota filled
Liberia	2,511,800	Quota filled
Paraguay	2,644,000	
Yemen	1,850,800	185,740
Basket 1/	6,610,000	3,301,720

1/ Basket quota allocated to unlisted nonmember countries and to listed nonmember countries after respective quota filled.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE

THURSDAY, APRIL 13, 1967 F-877

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1967, to April 1, 1967, 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 April 1, 1967
Buttons	510,000	Gross	44,874
Cigars	120,000,000	Number	2,351,240
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	2,403,168
Tobacco	3,900,000	Pound	356,100

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 us 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 - April 10, 1967

Country of Origin	Established Quota	Imports	Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-	Honduras	752	-
Peru	247,952	50,487	Paraguay	871	-
India and Pakistan	2,003,483	-	Colombia	124	-
China	1,370,791	-	Iraq	195	-
Mexico	8,883,259	87,175	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 - April 10, 1967

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	31,753,233
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	120,625
1-1/8" or more and under 1-3/8"	4,565,642	4,130,101

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 April 10, 1967	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1966 to April 10, 1967
United Kingdom	4,323,457	34,048	1,441,152	34,048
Canada	239,690	67,453	-	-
France	227,420	31,583	75,807	31,583
India and Pakistan	69,627	16,058	-	-
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	11,691	25,443	-
Italy	21,263	-	7,088	-
Other, including the U. S.	-	-	-	-
	5,482,509	160,833	1,599,886	65,631

1/ Included in total imports, column 2.

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
THURSDAY, APRIL 13, 1967 F-879

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 April 1, 1967:

ommodity	Period and Quantity		Unit of Quantity	Imports as of April 1, 1967
ariff-Rate Quotas:				
ream, fresh or sour	Calendar year	1,500,000	Gallon	651,129
hole Milk, fresh or sour ..	Calendar year	3,000,000	Gallon	
attle, 700 lbs. or more each (other than dairy cows)	Jan. 1, 1967 - Mar. 31, 1967	120,000	Head	4,707[1/]
attle, less than 200 lbs. each	12 mos. from April 1, 1966	200,000	Head	125,422[1/]
ish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,883,313[2/]	Pound	Quota filled
ma Fish	Calendar year	To be announced	Pound	13,971,635
ite or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1966	114,000,000	Pound	Quota filled
Other		45,000,000	Pound	Quota filled
ives, forks, and spoons with stainless steel handles	Nov. 1, 1966 - Oct. 11, 1967	84,000,000	Pieces	Quota filled
iskbrooms	Calendar year	1,380,000	Number	1,297,140[3/]
her brooms	Calendar year	2,460,000	Number	1,523,936[3/]

Imports as of March 31, 1967.
Imports for consumption at the quota rate are limited to 6,220,828 pounds during the first 3 months of the calendar year.
Imports as of April 7, 1967.

Commodity	Period and Quantity		Unit of Quantity	Imports as of April 1, 1967
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, 1966	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter).................	12 mos. from Aug. 1, 1966	1,709,000	Pound	Quota filled

F-879

STATEMENT OF JOSEPH W. BARR
UNDER SECRETARY, U. S. TREASURY DEPARTMENT
BEFORE THE SENATE COMMITTEE ON BANKING AND CURRENCY
ON S.5 (TRUTH-IN-LENDING ACT OF 1967)

Thursday, April 13, 1967

Mr. Chairman and Members of the Committee:

The President, in his message of February 16, 1967, to the Congress on Consumer Protection, recommended legislation be enacted to require lenders and credit sellers to provide consumers with full and complete information on the cost of credit. The President said:

"I recommend the Truth-in-Lending Act of 1967 to assure that, when the consumer shops for credit he will be presented with a price tag that will tell him the percentage rate per year that is being charged on his borrowing.

"We can make an important advance by incorporating the wisdom of past discussions on how the cost of credit can best be expressed. As a result of these discussions, I recommend legislation to assure --

"Full and accurate information to the borrower; and

"Simple and routine calculations for the lender."

I am pleased to appear before you to support Senator Proxmire's Truth-in-Lending Bill, S.5, which would carry out the President's recommendation.

F-880

S.5 is a realistic, practicable, and workable bill. Its most important feature, the requirement to state the finance charge as an annual percentage rate, in addition to its statement in dollars and cents, will provide for uniform disclosure of finance charges for the first time in this Nation's history.

This purpose is clearly within the tradition of our economic system which relies on the discretion of informed consumers to express their preferences in the market. Poorly informed consumers, or even well informed consumers who are unable to communicate effectively in the market because of the jumbled terminology, cannot be good citizens in a free economy.

S.5 will give the American consumer the information he needs to compare the costs of credit from different sources with what he can earn on his savings and to make an intelligent credit decision.

The practical application of the annual rate requirement has been studied at length, both by this Committee and by the Administration.

We have concluded that such a requirement will impose no significant burden or difficulty with respect to the overwhelming majority of credit transactions in the United States.

We do not agree with critics of this legislation who argue that the complexity and variety of credit transactions make accurate disclosure of finance charges very difficult, if not impossible.

We believe that most creditors will find it both practical and desirable to employ standard tables specifying the annual rate applicable to their particular credit plans.

I want to come back to this point because the question of workability was a legitimate objection in the past. It no longer is and should no longer be an excuse to delay action.

I want to emphasize the workability of S.5 because I believe no member of this Committee or of the Congress and no legitimate lender or credit seller really is opposed to the disclosure of the true cost of credit if this can be done without imposing excessive hardships or burdens.

Consumer credit is essential to the American way of life and our economic system. Consumer credit is used to finance a large proportion of durable goods purchases and a sizeable part of nondurable purchases. Last year, outstanding consumer credit, excluding mortgage credit, totaled $95 billion. Judging from the fact that new instalment credit made in a year roughly equals the amount outstanding, it appears that consumer credit financed about $100 billion of individuals' purchases in 1966. This is more than one-fifth of total personal consumption expenditures as recorded in the national income accounts.

Again leaving aside mortgage credit, consumers last year paid in interest and other credit charges approximately $13 billion for the use of consumer credit. This is a large sum -- it is approximately as large as our interest payments on over

$300 billion of Federal debt -- it is more than consumers spent for men's and boys' clothing -- for furniture and appliances -- for electricity, gas and water -- for doctor and dentist bills -- for alcoholic beverages -- almost as much as for gasoline and oil -- over half of what was spent on women's and children's clothing -- and about half of new and used automobile purchases.

While the consumer has some knowledge of the goods and services he is buying, and in almost all cases knows the price, few consumers are really aware either of the dollar cost or of the annual percentage rate paid for the use of credit. This lack of knowledge has certainly contributed to the abuse of credit. For this, we need only look to the rising tide of employee bankruptcies -- cases filed in U. S. District Courts in 1965 were 66% above the number in 1960 and over 500% above 1950.

It is clearly evident that the consumer now finds it impossible to select from all the credit sources available that one which is cheapest or best for his needs. The array of practices makes a rational choice among the alternatives almost impossible. This Committee has had abundant testimony on this point in the past. This is an area in our economy that has grown so fast it has created its own language. Much of it is beyond comprehension for most who are even very sophisticated in finance and who find difficulty in distinguishing add-on, discounts, precomputer, Rule of 78's, service charge, finance charge, interest, term price differential, sales price vs. cash price, etc. The variety of rate quotations is beyond belief and sometimes ridiculous.

Even a financial expert, who knows the ins and outs of credit, would find the correct solution difficult in the absence of uniform standards for disclosure. Such confusion in a $13 billion consumer purchase category is not in the national interest.

Credit can be described as the lubricant of our economy. When either the use or the supply gets out of kilter, the economy suffers. S.5 will promote the efficient flow of credit, since it will give consumers an adequate basis to determine and choose the most economical source of credit.

S.5 seeks to supply the consumer with essential information on the total cost of borrowing. It will enable the consumer to come to an intelligent decision as to which source of credit is cheapest by putting the cost quoted by all sources of credit on the same basis. This could be done in a number of ways, if this were the only objective. But many consumers also have another choice -- they can borrow the money or they can use existing savings. In the latter case, consumers need to compare the cost of credit with the earnings on their savings. In financial practice the earning power of savings is traditionally expressed as a percent per annum. Thus, it is reasonable to apply this same standard of comparison to consumer credit, to have the total cost of credit -- including interest and other credit charges -- expressed as a percent per annum on the unpaid balance. This is exactly the basis called for in S.5.

Finally, the required disclosure of an annual percentage rate of finance charge would in no way prejudice lenders under the usury laws of the States in which they operate. S.5 covers only the rate of finance charge and does not deal with interest rates, which are properly regulated by the States.

I believe that no merchant or banker or other legitimate lender really objects to the principle that his customers should know the truth about what they are paying for the use of credit. As I read the record, the objections that have been raised are that the bill would lay an onerous burden on legitimate lenders and sellers on credit.

I firmly believe, however, that the tables that have been furnished the committee have solved that problem.

Need For The Legislation

Let us remember that consumer credit, as it is known today, is largely a post World War II phenomenon. It has grown up after most of the other credit regulatory agencies of the Federal Government had become well established. So we as a Nation find ourselves with no agency principally responsible for the consumer credit industry as it affects the public. The bill makes no provision for such, but it does assign responsibility for establishing the rules and regulations regarding credit disclosure to the Board of Governors of the Federal Reserve System. The Board is the primary source of consumer

credit statistics and origin of the major consumer credit studies.

Once the bill is established and its provisions made known as to all major conditions, and, with the assistance of a united financial industry using the same terminology and methods of expressing finance costs and rates, it is reasonable to assume that the bill will become largely self-enforcing. Consumers will be able to utilize in their credit experiences the same rate concepts they have learned to use in savings experiences. Thus, there is reason to expect a greater alertness on the part of consumers and creditors to the basic facts of credit living.

S.5 will apply to anyone who extends credit to the consumer, whether a bank, merchant, department store, finance or loan company. But it would <u>not</u> control or limit the amount of their finance charges in any way.

Moreover, S.5 would not displace State action in this area.

While many States, in addition to Massachusetts, regulate consumer credit and call for the disclosure of certain kinds of credit information for certain kinds of credit transactions, the overall picture in this field is widely divergent and unsatisfactory from the standpoint of the consumer who needs a uniform basis for comparing finance charges.

The Federal Government must act to fill this need to enable the average American to obtain credit on the best terms for his particular needs and financial resources.

Far from displacing State action, the passage of S.5 will actually encourage existing and prospective approaches at the State level. It is our expectation that Federal action now will help pave the way for States to adopt similar disclosure measures, perhaps along the lines of a Uniform Consumer Credit Code, which is now under study.

With truth-in-lending a settled national policy, State action to assure full credit disclosure, as well as to provide other safeguards in the consumer field, could be more easily and quickly enacted.

As I noted earlier, the legislation specifically provides that the administrative agency shall exempt any class of credit transactions from the requirements of the Truth-in-Lending Act where it determines that such transactions are effectively regulated by State law.

Thus, a clear priority is given State legislation.

I would emphasise again that S.5 is a disclosure law only and will not in any way limit or otherwise control the rate or amount of finance charges. These matters are left to State law and to competition of the market place.

This legislation would:

(1) require every individual or firm engaged in the business of extending credit to furnish every prospective consumer of credit a clear, written statement of the amount of the finance charge to be paid for the extension or use of credit.

(2) enable consumers to compare the relative cost of credit by having creditors state finance charges in terms of dollars and cents and in terms of an approximate annual percentage rate.

There are, however, basic exemptions for:

(1) Business credit.

(2) Credit transactions involving the purchase and sale of stocks,bonds, and other securities which are already under the jurisdiction of the securities law.

"Credit" is clearly defined to mean consumer credit. As defined in S.5, it clearly does not include credit to business firms. As a rough rule, this would mean that credit incurred in the purchase of "depreciable property," as interpreted by the Internal Revenue Service would be exempt. The bill also exempts credit with government agencies, and their instrumentalities and credit transactions with a broker-dealer registered with the S. E. C.

"Finance charge" includes all the charges which result from the consumer's use of credit and from which he would be free if he had paid cash or not borrowed from the lender. The

general guideline -- to which I would subscribe -- is that finance charges include all of the charges that accompany credit and which the consumer becomes liable for if he opts to borrow rather than not borrow, or to buy on credit rather than pay cash.

Two areas of concern, of which I am aware, are credit life insurance and housing closing costs:

With respect to insurance, some creditors carry this risk at no direct cost to the individual borrower. Until 1955, for example, small loan companies, operating under the Russell Sage philosophy that the customer should be quoted one credit charge only -- to eliminate the temptation to disguise the cost of credit in a subterfuge of additional charges -- were expressly prohibited from making additional charges, including any charges for insurance.

Credit unions typically insure their borrowers for life and disability; the cost is included in the interest rate paid by the borrower.

Some other financial institutions also follow this practice of carrying blanket policies. Others, however, give consumers the option of carrying insurance. And a third group makes the insurance coverage a condition of the loan extension.

Clearly the latter class of creditors should include premiums in the finance charge. In those cases where insurance is clearly optional or, as stated in the Department of Defense directive, neither the credit vendor or lender has a direct

interest in the sale of the insurance, then the insurance premiums would not be part of the finance charge. What remains admittedly, is a grey area which would bear further study of prevailing practices to determine their rightful placement.

With regard to housing costs, I resubmit for the record the two statements supplied in previous hearings by the Federal Housing Administration which satisfy me that guidelines are sufficiently clear for the administrative agency to prescribe rules and regulations which would be within the intent of the bill and would be welcome by the housing finance industry.

(1962-page 11a; 1963-64-pages 11b - 11d)

The total amount to be financed needs no discussion, but the next three terms do. Taken together they define in practical, operational terms the actuarial method for computing the true rate.

The definition is liberal in that it does not prescribe any specific time period, but allows each creditor and consumer to select the payment period of greatest mutual convenience -- daily, weekly, biweekly, monthly, quarterly, annually. If there are irregular time periods in the contract, it may be assumed that the most frequent payment period would be the appropriate time unit. The ratio of the finance charge for the period to the unpaid balances for this lapsed time is the rate, not only for the period but the rate prevailing throughout the total life

Following is the classification:

Items	Incident to extension of credit	Not incident to extension of credit
1. Lender's fee	X	
2. Title examination (or continuation of abstract or attorney's opinion)		X.
3. Survey (physical viewing by lender)	X	
4. Appraisal	X	
5. Construction loans—inspection and escrow company charges	X	
6. Property inspection	X	
7. Title insurance:		
Coverage of mortgage amount	X	
Coverage of mortgagor's equity		X.
8. Preparation of instruments:		
Deed		X.
Mortgage	X	
9. Settlement charge (assuming this is a fee for preparing the settlement statement and related services other than attorney's).		X.
10. Recording costs:		
Mortgage	X	
Deed		X.
11. Apportionment of taxes and assessments		X.
12. Apportionment of initial premium for fire and casualty insurance		X.
13. Broker's fee (if broker obtains financing for borrower or some service of that nature).	X	
14. Escrows for future payments of taxes, insurance (including both casualty and life of borrower).		X.
15. Adjustments of purchase price resulting from supplemental agreements between vendor and vendee, or vendee and others (additions to or subtractions from purchase price because of inclusion or exclusion of items, such as drapes or carpeting).		X.
16. Local transfer or ad valorem taxes		X.
17. Notary fee:		
Mortgage	X	
Deed		X.
18. Revenue stamps		X.
19. Credit report	X	
20. Points or discounts [1]	X	
21. FHA insurance	X	
22. Insurance on property over term of mortgage		X.
23. Maintenance and repairs		X.

[1] FHA and VA do not permit home purchasers to pay discounts.

I hope that this information will be of assistance to your committee in its consideration of the truth-in-lending bill.

Sincerely yours,

MILTON P. SEMER, *General Counsel.*

Senator BENNETT. Just for the record, some of these charges which we agree are incident are not included in the statement that you have made, are not included in the printed form that Mr. Hardy presented to us. They are outside it.

There is just one other area on which I would like to build a very brief record.

Mr. SEMER. Senator Bennett, if you are going to turn to something else, I think it might be helpful on this point to show: What should a roster of items be to which your question should be directed? I think that is——

Senator BENNETT. That is what I am trying to get at.

Mr. SEMER. Because you have a closing sheet there which might have some local jargon in it which might not be typical.

Senator BENNETT. Right. I am just interested in a general list which can be generally applicable.

Mr. SEMER. Yes.

In response to a question in a letter that Senator Douglas sent us on December 21 of last year, "What kinds of charges are permitted under State laws?" This is what we were referring to earlier——

3. Differences in the Types and Costs of Fees and Charges Levied by Different Types of Institutions Extending Housing Credit

No information is available on the types and amounts of fees and charges levied by different types of institutions in making mortgage loans. It should be noted in this connection, however, that many of the charges paid at the time of the loan closing are not under the control of the lender and are not collected by or for him, such as for title insurance, property survey, Federal and State stamps on deeds, recording of mortgage and deed. Some of the other charges made may reflect work performed by employees of the lender or by outsiders, such as, the appraisal of the property. The mortgagee's initial service charge, however, is under the control of the lender.

Credit Unions

Credit unions are limited, under the Federal Credit Union Act, to a maximum interest rate of 1 percent per month on unpaid balances, and this rate must include all charges incident to making the loan. We understand that Federal credit unions make very few mortgage loans, probably because the maximum 5-year maturity permitted on loans they may make limits their operations in this respect.

The following information provided by the Bureau of Federal Credit Unions, Department of Health, Education, and Welfare, explains the specific charges which are included or excluded from the 1 percent per month rate.

None of the following costs incident to making a loan may be charged to the borrower if it results in a total cost of more than 1 percent per month (or 12 percent per annum) on unpaid balances:

1. Inspecting and appraising real or personal property.
2. Recording of chattel mortgages, real estate mortgages, or other lien instruments.
3. Title search.
4. Bringing abstract of title to real estate up to date.
5. Attorney's opinion as to title and validity of credit union's lien.
6. Title insurance.
7. Title certificate.
8. Preparing deeds of trust, mortgages, or other lien instruments.
9. Chattel lien nonfiling insurance.
10. Credit investigation and credit reports.
11. Credit life (borrower's protection), disability, health, or accident insurance.
12. Filing assignments of personal property such as life insurance policies, mortgages, etc.

Items of cost related to the following have been held to be outside the limitation of interest charges, and the borrower may be required to pay them:

1. Preparing release of mortgage or other lien instrument.
2. Recording release of lien.
3. Hazard insurance on the property, such as fire, theft, liability, collision, windstorm, or other casualties.
4. Restoring clear title to borrower.

4. Fees or Charges Paid by the Borrower on a "Housing" Credit Transaction Which Should Be Regarded as Incident to the Credit Transaction

While some of these individual items may be considered as incident to the credit transaction, and some may not, there are others which may fall in either category or be divided between the two categories, depending upon the particular circumstances involved.

The listing presented below represents an attempt to classify into the categories desired, the individual items of loan closing costs which appear in table 4 in the information provided in answer to question 2. It should be noted that many of these charges, which are paid at the time of loan closing, are not under the control of the lender and are not collected by the lender.

1. Items which may be considered as incident to the credit transaction:

FHA examination fee
Mortgagee initial service fee
Mortgagee appraisal fee
Credit report
Photos
Mortgage tax (in the nature of a stamp tax, etc.)
Survey (of property)

2. Items which may not be considered as incident to the credit transaction:

Title search.
Title abstract.
Escrow fee (usually a charge by an attorney to hold moneys involved in the settlement, such as for paying off an existing second mortgage or other liens, and thereby assures clear title).
Revenue stamps (on the deed).
Title transfer tax.
(Prepaid items, such as for real estate taxes, special assessments, ground rents, hazard insurance premiums, and the initial FHA mortgage insurance premium are excluded from these FHA data, as was previously explained in the information presented in answer to question 2.)

Title insurance. Where required solely for the benefit of the lender and in amount equal to the mortgage amount, the charge should be included in category 1 above. Where the insurance is also provided for the protection of the owner and may also be extended to cover his equity in the property, part of the charge should be included in category 2 above.

Preparation of deed and documents. Would include preparation of the deed and mortgage, and therefore should be divided between categories 1 and 2.

Attorney's fees. Practices appear to differ among communities in the way this item appears on the settlement statements at loan closing. In some areas, the attorney's fee may also include title search if conducted by him and possibly preparation of the deed and the mortgage. Thus, part of this fee may be included under category 1 and part under category 2, depending upon what items are covered.

Closing fee. Attorney services for the borrower at closing. Generally, this does not include preparation of deed and mortgage, but in some cases may include this. Probably should be divided in some manner between categories 1 and 2.

Notary fees (for mortgage and deed). Should be divided between categories 1 and 2.

Recording fees (for mortgage and deed). Should be divided between categories 1 and 2.

Broker's commission. Under FHA regulations this is optional with the borrower. He may, if he so desires, negotiate with a broker to arrange financing or to represent his interests at closing. This charge occurs infrequently, but to the extent it does, it belongs in category 1 or 2 depending upon the circumstances involved.

Adjusted interest. This adjustment for interest is made to cover the interest for the period between the time the loan is closed and the date of the first monthly payment on the mortgage. This represents, in effect, a prepayment of interest on the loan and would represent part of the total interest to be paid over the life of the loan."

of the contract. For purposes of comparison with other annual rates this periodic rate is expressed in an annual rate.

I would like to emphasize that this annual rate becomes real and true as it is actually applied to the periodic credit balances. As each payment is made, this rate is applied to determine the portion of the payment that is applied to the finance charge, with any remainder of the payment used to reduce the principal. This procedure is strictly in accordance with the United States Supreme Court decision in 1839 and is generally known in consumer finance as the United States Rule.

Although the actuarial rate is no stranger to home financing or to the business and financial community generally, it has failed up to now to gain widespread acceptance in the consumer credit field, in part because tables were not readily available for short terms and for the wide range of rates which are charged. Also, consumer loans are frequently made to persons whose wages and salaries are irregular and whose ability to repay may also be irregular, thus presenting special problems.

I am exceedingly pleased and proud of the tables that have been produced by our Government Actuary.

These tables can be used to find the actuarial rate for any contract, however irregular the payments may be. Only the common facts normally required in a contract need be known: The schedule of payments, the finance charge, and the amount financed. The tables can be used equally well to find the finance charge,

if the rate, amount to be financed and payment schedule are known. And, some dealers may use such tables to find the payments required to pay off an amount to be financed at a given rate and finance charge.

This is a recital of what most of us learned in seventh grade arithmetic, namely, that there are four parts to the equation I=Prt and if three of the four terms are known, the fourth can be computed. This was simple arithmetic for straight single payment loans, but for instalment loans, unless one starts with the rate and constructs a schedule of payments using the United States Rule, a table is needed. We now have such a table.

It has been predicted that the necessary set of tables would be the size of the Manhattan telephone directory. I have here in my hand a 20-page table covering a range from 8-7/8% to 14-7/8% for periods of one to 60 months. The complete set of booklets for ranges from 0 to 42% with a 3% overlap in books would number only 260 pages. Few creditors would need more than two books.

Gentlemen, I also wish to point out that a major portion of the table is for values needed only to accomodate irregular payments. We published these books to prove, however, that irregular payments present no technical obstacle to the disclosure of credit cost and annual rate, and that such a set of rate tables could be produced. Having proven this, we believe greater simplification is possible. I am impressed

by several facts which convince me that we need not burden the industry with this detail:

(1) First, our best information indicates that fewer than 5% of credit contracts are irregular. Many of these could be treated as regular contracts without greatly affecting the accuracy of the rate calculation.

(2) A majority of the States, which have retail instalment sales and small loan acts, require payments to be made in "substantially equal periods of time and substantially equal amounts." This is essentially the law in at least 22 States.

(3) Many of the States tolerate certain minor irregularities or provide convenient interpretations that avoid the necessity of counting days and allow slight deviations in payment, especially the final payment. One State, for example, counts any time lapse of 15 or more days as one month, so that all payments can be considered to be monthly for purposes of computing the rate.

(4) The U. S. Department of Agriculture, which is responsible for extension of considerable amounts of farm credit, and therefore should be aware of any special problems of farmers whose repayment schedules are timed to the sale of cash crops and not to a monthly salary, has not raised any problems related to irregularities in scheduled payments. Farmers and school teachers are the groups more frequently cited as needing special considerations. Teachers credit unions use the actuarial rate quotation with no apparent problem.

(5) The Department of Defense Directive is based on a monthly repayment schedule, and to my knowledge has not created special problems for creditors.

I conclude, the regulatory authority should be able to find ways to accomodate most of the irregularities, and still preserve the objective of the bill to require disclosure of a reliable comparative rate as well as cost, in ways which will make it possible to reduce the 260 pages to one page. And I submit this one page table, which you will recognize as the table Treasury supplied to the Department of Defense. I estimate that this one page can handle all but a small minority of contracts. Creditors wishing to accomodate customers with very peculiar credit requirements can "tailor make" contracts using the detailed tables or by constructing a schedule of payments.

Forms of Credit

The disclosure of finance charges is given in two sections. The first pertains to contract or closed-end credit, and the latter to revolving or open-end credit.

There seems to be a disposition to tag these two forms of credit to the credit vendors and lenders who developed the forms. That is, some refer to the open-end form as "retailer" credit and the contract form as cash loan instalment purchase credit.

Such references are both inaccurate and unnecessary. They are inaccurate because open-end credit is no longer used exclusively by stores. Banks are rapidly including this form of credit extension in their services. Contract credit is not limited to financial institutions but is a major form of retail credit.

This terminology is unfortunate, for it relates to the sources of credit and not to the purpose of the bill to disclose essential information to the consumer.

The two types of credit recognized by the bill merely reflect the facts: Consumers may contract for an amount of credit at a certain cost to be repaid by meeting a fixed schedule of payments, constructed at a certain rate. That is all four components are known and embraced in the contract. Or, the consumer may contract for a "line of credit" to be repaid under broad repayment guidelines, with the rate known but the finance charge not known until the credit is actually used. Consumers need and business can supply both closed-end (contract) and open-end (revolving) credit. Both are legitimate and desirable forms of credit; each requires comparable disclosure.

Sec. 4(a) of S.5 requires disclosure of the basic elements of the closed-end contract, allowing both parties to agree in subsection (9) to terms which would be imposed in the event of deviation from contract terms. This might provide both parties

an opportunity to make suitable accomodations to minor irregularities.

We have worked out examples of various types of contract credit to prove the workability of the table, and we have also reworked these problems, waiving the irregularities, to indicate how simplifying rules do not greatly affect the disclosure.

Sec. 4(b), applying to open-end credit, seems to me also to be straightforward. I appreciate the fact that many creditors now quoting a monthly rate of 1-1/2% would prefer not to quote 18%. But if this is a requirement for all, its impact on any one creditor will be fair. I am not convinced by the argument that this higher rate disclosure will affect their sales. So far as I know, there is no evidence that full disclosure requirements in any area have adversely affected the interests of legitimate businesses engaged in that area.

The Dollar Rate

I should also like to discuss the argument advanced that consumers do not understand percentages or rates, but do understand dollars. The argument is made that credit should be expressed as a dollar add-on rate and not as a percentage rate.

1. The dollar cost of a credit contract is unique to that contract; it is not comparable with contracts of other amounts and duration. Some help is afforded if the facts are

expressed as finance charges per $100 of the contract. This is the term needed for use of our tables. This does not provide comparable information because of different durations.

2. The dollar add-on rate is usually quoted as dollars per hundred per year. I am disposed, however, to argue that even casual readers of highway signs and newspaper and TV advertising are more familiar with the % sign as an expression of rate. Furthermore, the finance industry must find percentages to be meaningful or it would not spend such large sums in advertising percentage rates.

3. But I understand that the proponents of dollar add-on mean something more than this: They propose that the dollar add-on expresses the rate to be applied to the amount to be financed and not to the credit used. Since in instalment credit the amount used is approximately 1/2 the beginning amount of credit extended, the actuarial rate is approximately twice the dollar add-on rate. It is, perhaps, because this half-rate seems so economical that the creditors are inclined to view this as the type of rate consumers seem to understand.

Why should we have a double standard? Why should a financial institution quote dollar amounts to the public when lending money and percentage amounts when borrowing money from the public?

If dollar add-on is what ought to be quoted, this single standard of disclosure would require that a bank currently

paying 4-3/4% on savings would be required to advertise: "Our dollar add-on rate on savings is $2.59".

This may seem ridiculous, but that is the way I view the entire dollar add-on argument.

I am convinced that we should stop thinking in terms of a double standard of one set of terms for credit customers and another for many of those same people when they are depositors.

Workability of S.5

I want now to return to the question of workability, and to nail this down once and for all.

The Committee has been provided with a set of tables prepared by the Government Actuary, and I would like to go through some examples with the Committee, first demonstrating that with relative ease even an ex-Congressman can find the annual rate for any credit transaction with a high degree of accuracy. Then I want to demonstrate that with an acceptable degree of tolerance, even these calculations can be greatly simplified except for the most extraordinary and improbable kinds of credit deals.

Example 1. My first example is the most usual type of instalment credit transaction -- a series of equal or level payments. This is the ordinary type of instalment credit contract that a consumer enters into when he buys, for example, a refrigerator or a washing machine or an automobile on time.

This is Example 1 on page 1 of the blue book. The consumer buys an automobile for $2,500, pays $500 down, and has a balance of $2,000 to finance. His monthly payments for 36 months are $67.22. 36 times $67.22 is $2,419.92. The finance charge is the difference between this and $2,000, or $419.92. The finance charge per hundred is $419.92 divided by the number of hundreds in $2,000; this gives $21.00.

Now to find the annual rate of finance charge, all we have to do is to look down the first column in the table (page 9) to 36 months: Look across to find $21.00, which lies between $20.65 and $21.08, and read up to 12-3/4 percent. And there's our answer. That wasn't hard.

Example 2 is a variation of Example 1. In some cases the arithmetic on an instalment credit contract doesn't work out exactly and the last payment is adjusted either up or down.

So let's look at Example 2 on page 1 of the blue book.

Here we have a television set which is sold for $395. The finance charge is $39.50 and the instalment contract is for 18 months.

The first 17 payments are level -- $24 each. The final payment is $26.50.

First we calculate the finance charge per hundred. This is $39.50 divided by the number of hundreds in $395. This gives $10.00.

Since we have an odd last payment, we need to turn to page 25 of the blue book to the Odd Final Payment Table. We look down the first column to $25 -- the amount of each level payment -- and across to $26.50 -- the amount of the last payment. This falls between $26.25 and $28.75, so we read up between these two figures and find a string of +.1 adjustments

in the little table at the top. The first column in the little table tells us that if we have over 12 payments we use the correction on the bottom line, which is +.1. We add this to the number of monthly payments. This makes it 18.1 months.

Now we turn to the Annual Percentage Rate Table (page 7), look down the first column to 18.1 months, read across to the finance charge per one hundred -- $10.00. This lies between $9.93 and $10.14. We read up and find the approximate annual rate is 12-1/4 percent.

That wasn't very hard either, and it gets easier when you've done it two or three times.

<u>Example 3</u> is a series of level payments, but the first payment is not due for 3 months and 24 days. Ordinarily in an instalment contract the first payment is due in one month, so in this case we have an extension of 2 months and 24 days beyond the normal first payment date.

First, let's calculate the finance charge per hundred. The loan -- maybe to a teacher who is paid on a nine months schedule and won't have any income coming in until school re-opens -- is for $200. There are 12 payments of $18 each. The total is $216, so the total finance charge is $16 or $8 per hundred.

Now we turn to page 23 to get the amount of the extension in decimals. The table is set up so you don't even have to

calculate the extension. Just look up the time to the first payment -- down the first column to 3 months and across to 24 days to find the adjustment factor -- 2.80.

Now let's turn to the Annual Percentage rate table (page 5).

Read down the first column to 12 months. Move over to the second column -- the equivalent point in months. This equivalent point is the weighted average time that the loan is outstanding. Find the value there -- 6.44. Add the deferment -- 2.80. 6.44 plus 2.80 is 9.24. Look down the second column to find the value closest to this number. 9.22 is a little closer than 9.27, so we read across the table from 9.22 to locate the finance charge per hundred -- $8.00. This falls between $7.87 and $8.07. Read up and the approximate annual rate is 10%.

I'm going to skip Example 4. This is just a combination of Examples 2 and 3.

Example 5 on page 1 of the blue book is a single payment loan. When we've covered this, we will have covered probably 95 percent or more of all consumer credit contracts.

In this case we have the purchase of $250 of merchandise to be paid for in 3 months and 21 days with a single payment of $257.50.

The finance charge is $7.50 -- $257.50 minus $250. The finance charge per hundred, then, is $7.50 divided by the number of 100's in $250. This gives $3.00 per hundred.

Now let's turn back to the Deferment Table on page 23. The payment is due in 3 months and 21 days. Look down the first column to three months. Read across to 21 days. The deferment is 2.70.

Turn to the Annual Percentage Rate Table. We have one payment -- first column. The equivalent point for one payment is, of course, 1.00 -- second column. Add the deferment factor -- 1.00 plus 2.70 -- and read down the second column to the nearest value to 3.70. 3.68 is a little closer than 3.73, so we read across from 3.68 to find the values between which the finance charge per hundred lies. $3.00 is between $2.99 and $3.07. Read up to find the approximate annual rate -- 9-3/4 percent.

Now I'm going also to skip Examples 6, 7 and 8. These and Example 9, which I want to go through, are not problems -- they are demonstrations of the ways in which the table can be used by lenders in setting their finance charges.

Example 9 illustrates the add-on rate which is very commonly used in automobile finance.

What we have here is a finance charge of $6 per hundred per year. There are 18 monthly instalments -- a year and a half -- so the total finance charge per hundred dollars is 1-1/2 times $6, or $9 per hundred, which is what we need for the tables.

Now we turn to the Annual Rate Table (page 7). The 18 month line is at the top of the page. Read across to find the values between which $9 per hundred lies -- $8.83 and $9.04. Read up to 11 percent. By interpolation, a more accurate rate is 11.08 percent, but the tables are set up so that the answer should generally be within 1/8 of 1 percent without this additional step.

The Committee might also be interested in the annual percentage rate for a 6 percent add-on for a two year instalment contract.

The finance charge per hundred is $6 times 2 or 12 dollars. We look down column 1 in the Annual Rate Table (page 7) to 24 months. Read across to $12.00, which he hit on the button this time. Read up. The approximate annual rate is exactly half way between 11 and 11-1/4 percent, so it is precisely 11-1/8%.

Now I've also got some more complicated examples, and then I want to go back and rework all of these examples using the one page Defense Department rate table. Then I want to talk about the simplest problem of all -- revolving credit -- and conclude with some comments on mortgage credit.

Example 1 on page 2 of the blue book is a balloon payment. These are prohibited by law in many States, but even so they seem to be fairly common.

The example is complicated because we've also assumed a deferment, but I thought I should show you that these complications can be handled easily. It doesn't take a graduate degree in financial mathematics. Any clerk who is allowed to set up an instalment contract can handle the tables.

In this case we have 10 payments of $50 each beginning in 1 month and 28 days. The 11th payment -- the final payment -- is $150, due at 11 months and 28 days.

First, we calculate the finance charge per hundred. This is the fundamental calculation. 10 payments of $50 each is $500 plus one payment of $150 is $650. The cash price is $610, so the finance charge is $40 -- $650 minus $610. The finance charge per hundred is just $40 divided by the number of hundreds in $610. This isn't the easiest calculation without paper and pencil; but the answer is $6.56 per hundred.

The main point to bear in mind in solving these cases that are really irregular is that the main schedule is a combination of "sub-schedules". Here we have a sub-schedule of 10 equal payments, and another one of just one payment. We deal with them separately.

Second step. Looking at the first sub-schedule of 10 payments, let's find the decimal equivalent of the 28-day extension. Remember we don't actually have to calculate the extension. The Deferment Table (page 23) is set up so that all you need to look for is the time to the first payment --

1 month and 28 days. The table is based on a 30-day month; this is conventional and is a practice followed by most lenders in dealing with fractional parts of a month. The decimal deferment value for 1 month and 28 days is 0.93.

All right. Now we go to the Annual Rate Table. Our first level payment sub-schedule is for 10 payments (page 5). Look down the first column to 10 months. Look across to the next column to find the equivalent point. This is 5.46. Add the 0.93 to get 6.39. Move on down the second column to find this value; in this case we have it exactly. Then look across to column 3 to get the equivalent factor -- .610.

Next, we have our second "sub-schedule" of one payment of $150 which is not due for 11 months and 28 days. We go back to the Deferment Table on page 23 and find the decimal deferment value -- 10.93. Turn to the Annual Rate Table (page 3), look down the first column to one month -- we have just one of these payments. Go across to the second column to find the equivalent point -- we should have remembered this would be 1.00 -- add the deferment factor to get 11.93, look down the second column (page 7) -- hit it again -- and across to the third column to find the equivalent factor -- 1.108.

Now we have to do some multiplications This makes it a little more complicated, but this is a complicated credit transaction. Not only that, but it's too complicated really

to be believable. I can't imagine very many cases of this kind.

Multiplications: We have ten payments of $50. This gives a $500 total for the first "sub-schedule". We multiply this times the equivalent factor -- .610 -- to get $305. In the second "sub-schedule", we have one payment of $150 times its equivalent factor -- 1.108 -- or $166.20. The sum of $305.00 and $166.20 is $471.20.

We divide this by the total payments -- $650 -- and $471.20 divided by $650 is .725. This is the weighted equivalent factor, so we turn back to the Annual Percentage Rate Table (page 5), and look down column 3. .725 is closer to .727 than to .722, so we read across on the .727 line. The finance charge per hundred -- $6.56 lies between $6.50 and $6.66. Read up, and the approximate annual rate is 10 percent.

Now I'm going to do one more example -- example 3 on page 2 of the blue book. Examples 2 and 4 are simply variations of Example 3 and other examples we've already gone through.

Example 3 is just to illustrate that the tables do work, since I've never heard of an instalment contract like this and my staff hasn't been able to explain to me how a credit seller or a credit borrower could get involved in this kind of arrangement.

Anyway, we have this schedule:

a payment of $100.00 at 1 month and 9 days
a payment of $100.00 at 2 months and 1 day
a payment of $75.00 at 4 months and 10 days
a payment of $65.00 at 5 months and 9 days
a payment of $25.00 at 8 months and 6 days, and
a final payment of $51.83 at 10 months and 8 days.

Total payments amount to $416.83. If the cash price is $400, the finance charge is $16.83 and the finance charge per hundred is $4.21.

Now we need to make up a table, listing the amounts of each payment (see table p. 31). Then we turn back to page 23 to the deferment table and read from it for each payment the decimal deferment value. 1 month and 9 days, 0.30; 2 months and 1 day, 1.03; 4 months and 10 days, 3.33; 5 months and 9 days, 4.30; 8 months and 6 days, 7.20; 10 months and 8 days, 9.27. And we set these values down next to the payments.

Now we go to the Annual Percentage Rate Table. The equivalent point for 1 payment is 1.00 so we add 1.00 to each of the deferment values. Then we look down column 2 to the adjusted deferment values and look across to column 3 for the equivalent factors which we need to copy down because we are going to multiply each payment by its equivalent factor.

Going down the line in column 2 we find that 1.30 in column 2 gives us .127 in column 3, 2.03 in column 2 gives us .199 in column 3, and so on.

Now we multiply the equivalent factors by their corresponding payments. That is .127 times the first payment of $100 is 12.70. .199 times $100 is $19.90 etc., down the column.

Now we add up all of these products -- $12.70 plus 19.90 plus 31.28 plus 33.15 plus 19.40 plus 49.91 -- and get the total of $166.34. We divide the total by the sum of the payments -- that is $166.34 by $416.83 -- and get the weighted equivalent factor -- .399.

Then we go back to the Annual Percentage Rate Table (page 3) read down column 3 to the nearest figure to .399 -- .398 -- read across to the finance charge per hundred -- $4.21 -- this is between $4.15 and $4.24 -- read up to the annual rate -- 12 percent.

Anyone who would go to the lengths of designing an instalment contract like this surely deserves to have to do this amount of work. But it really wasn't that hard and would be a lot simpler with a proper work sheet.

Payment	Deferment value		1 month		Equivalent points	Equivalent factor		Amount	Product
1	0.30	+	1.00	=	1.30	.127	x	$100.00	$12.70
2	1.03	+	1.00	=	2.03	.199	x	100.00	19.90
3	3.33	+	1.00	=	4.33	.417	x	75.00	31.28
4	4.30	+	1.00	=	5.30	.510	x	65.00	33.15
5	7.20	+	1.00	=	8.20	.776	x	25.00	19.40
6	9.27	+	1.00	=	10.27	.963	x	51.83	49.91
								$416.83	$166.34

$166.34 divided by $416.83 equals .399

Now I want to go back through these same examples to illustrate that the determination of the annual percentage rate can be made even easier if we allow a reasonable degree of tolerance in the statement of the rate.

First of all, the blue book is a formidable looking document. I have here, the Department of Defense Table for computing approximate annual percentage rates for level monthly payment plans. This is one sheet instead of 11 of these blue books. Here are copies of the Defense Department Tables for the Committee.

It is not as precise.

The rate intervals are wider -- 1/2 of 1 percent to a full 1 percent and more -- and the periods are in whole numbers, not in tenths.

Even so, I am going to demonstrate that good results can be gotten from this one page table, covering rates from 5 percent to 36 percent and 1 to 60 payments which compare favorably -- with an acceptable degree of tolerance -- with the more accurate rates determined with a good deal more labor from the blue books. And I am going to do this using some additional simplifications.

Example 1, page 1, is easy. It works just like it did in the blue book. Take the Defense Table. Look down column 1 to 36 months, read across to the finance charge per hundred -- $21.00 -- between $20.43 and $22.17. Read up to 13 percent.

Our answer before was 12-3/4 percent, but I don't see any reason to complain about that. If we interpolated, we would get 12.83% identically from either table.

Example 2. The odd final payment is $26.50, the level payments are $24.00. At a glance we can see that the odd final payment is closer to 1 level payment thah it is to 2, so we call it 1 level payment. Add 1 to the 17 level payments -- 18 payments. Read down column 1 of the Defense Table -- incidentally I should tell the Committee that the Defense Table was also prepared by the Government Actuary, Mr. Kroll -- read down column 1 to 18. Read across to the finance charge per hundred, $10.00, read up to the rate 12 percent. We got 12-1/4 percent when we used the blue book.

Example 3. Here we have a deferment -- and right here I would like to give the Committee a sheet containing the rules we are following. This is labelled Form No. I. The rules will take care of deferments and odd final payments, except for large balloons. Single payments are also covered.

The finance charge per hundred is $8.00, we calculated that before. The first payment is not due for 3 months and 24 days. That is, the first payment is extended for 2 months and 24 days. Double this -- 4 months and 48 days. Round it to the nearest month -- 6 months. Add the 6 to the number of payments -- 12 payments plus 6 equals 18 payments. Read down to 18 months. Read across to the finance charge per hundred.

Read up to the rate -- 10 percent. This is the same answer we got from the blue book. Not hard.

Example 4. We skipped that before. It's easier now. The finance charge per hundred is $6.29. The first payment is due in only 21 days instead of a full month. This is 9 days early. Double that to get 18 days which rounds to .6 months. We have to go to tenths of months here because we have a double adjustment, one for deferment and one for odd final payment. The last payment, $7.80 is less than one-half of the level payment amount of $20. With a quick division we find that it comes to .4 of a level payment.

Now if we add our adjustments to the number of equal payments, 10, we get 10 -.6 + .4 = 9.8 payments. We used a minus .6 because the first payment was early, you will recall. Now we round our 9.8 to 10 and read down the first column to 10. Read across to the finance charge per hundred -- $6.29 -- read up to the rate of 13-1/2% (half way between 13% and 14%). The blue book rate is 13-3/4% in this case, so we have a discrepancy of 1/4%.

I would like to add at this point that various degrees of refinement can be used as the regulating agency sees fit. Converting days to decimal parts of a month is simple enough. You need only divide by 3 and move the decimal 1 place to the left. An odd final payment table is not a particular burden. The Defense Department Table could be made with slightly finer intervals. What I am demonstrating now is what might be considered as a starter with respect to the tolerances which might eventually be set down by the regulating agency.

Example 5, a single payment. From the blue book, we got a rate of 9-3/4%. The payment is due 3 months and 21 days, so the extension is 2 months and 21 days. Double this -- 4 months and 42 days. This rounds to 5 months. Add 5 to the number of payments -- 1. Enter the table at 6, read across to the finance charge -- per hundred -- $3.00. Read up to 10%. The difference is one-quarter of 1%.

We can skip the rest of the examples on page 1, since as I explained before they really are there to illustrate how a lender can use the tables to set up payment schedules.

Now I want to take up the more complicated examples on page 2 of the blue book. Then I'll come to revolving credit.

Example 1 involves a balloon payment which is three times the normal payment. I have here Form No. II, which gives the rules we have to follow in this case.

The level payments don't start for 1 month and 28 days, so the extension for these payments is 28 days. Double this -- 56 days -- round to the nearest month -- 2 months -- and put this down on paper. Put the number of level payments down below it - 11. The final balloon payment of $150 is three times one of the normal level payments -- put down 3. Add up 2, 11 and 3 to get 15 -- in effect treat the payment schedule as a schedule of 15-level payments. Now go down the Defense table to 15 months. Read across to the finance charge per hundred -- $6.56 -- read up to 10%. That's the same rate we got before.

Now I'm not going to go through the other three examples on page 2 of the blue book unless the committee wants me to. I do have the answers worked out, and I would like to submit a comparative table for the record./ See page 38a. It shows this: That the approximate method using the Defense tables gives results which are acceptable even within narrow tolerances in terms of the more accurate results that can be gotten from the blue books.

Now I want to conclude by talking about revolving credit -- this is the department store credit with which all of us are familiar.

I have heard the arguments: that some consumers don't have to pay any service charges because they pay within thirty days. That the average rate the consumers pay is only 8 or 9%, even though the store is charging 1-1/2 percent per month.

We need to get this in focus in terms of the purpose of the bill, which is to assure that consumers are fully informed of the cost of credit so that they can make intelligent decisions about how to use credit.

In these terms, it is not important that the consumer buys a shirt on the 3rd of April, is billed on the 17th of April, and has until the 17th of May to pay without incurring any credit charges. This is a cash transaction up to that point. The point at which it becomes a credit transaction, so far as the purpose of this bill is concerned, is the point at which the consumer becomes subject to credit charges.

Annual Rate Calculation Comparisons

	Blue book	Short method	Difference
Page 1			
Example 1	12-3/4	13	+1/4
2	12-1/4	12	-1/4
3	10	10	--
4	13-3/4	13-1/2	-1/4
5	9-3/4	10	+1/4
Page 2			
1	10	10	--
2	10-3/4	11	+1/4
3	12	11	-1
4	13-1/2	13	-1/2

This is the only thing that concerns him. He surely is not going to borrow elsewhere to pay off his revolving credit, unless it is to avoid paying service charges. He's not going to draw on his savings except for the same reason.

This is why I say that revolving credit is the simplest kind of credit to handle for the purposes of this bill. If the store charges 1-1/2% per month, the annual percentage rate is 12 times 1-1/2 or 18%. If it charges 2% a month, the annual percentage rate is 2 times 12, or 24% a year.

Finally, I want to say a word about mortgages. I have here a set of Mortgage Yield Tables. This is publication No. 135 of the Financial Publishing Company.

Let me show you how easy this is.

This is why I left it to last, because it is so easy.

Suppose our homebuyer wants to buy a$25,000 house, and he's looking for a $20,000 mortgage. So he goes to the lender and arranges a 6% 25 year mortgage for $20,000, and then he goes to settlement and discovers that he's being charged two points, $400, and that there are additional settlement charges which are directly related to the fact that he's getting a mortgage -- mortgage recording fees, title insurance, etc. -- amounting to another $450. This is another 2-1/2 points, so altogether our homebuyer is in for 4-1/2 points.

Let's just take the Mortgage Yield Table, turn to page 343, he's in effect paying 4-1/2 points so we look at a price of 100 minus 4-1/2 or 95-1/2, go over to the last column which is the yield to maturity, and read off 6.49. This is the annual percentage rate that this credit is costing him.

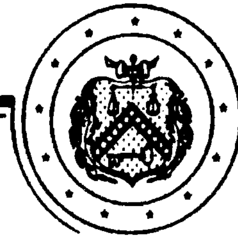
Summary and Conclusion

I have spent a lot of the committee's time on the actual computations needed under S.5. I hope I have demonstrated to your satisfaction that there is no credit transaction that cannot be solved with relative simplicity by the tables before you.

I want to remind the committee again that some 95% of all the credit transactions in this Nation can be computed easily under the first four simple examples I have cited. But my experience in Government has shown me that the Congress is unwilling to place even moderately harsh burdens on only five percent of the business community. For this reason, I have been at pains to demonstrate that even the more complicated examples can be handled with relative ease using the Defense Department table and some simple adjustment rules.

I would like to conclude with this simple statement: In my opinion, there is no real debate in the Congress or in the country over the desirability of the objectives specified in this legislation. The workability factor seems to have been the chief stumbling block in the past. I hope the effort that the Treasury has put forward has effectively demolished this objection.

TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, April 17, 1967.

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 January 19, 1967, and the r series to be dated April 20, 1967, which were offered on April 12, 1967, were ed at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, hereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

OF ACCEPTED TITIVE BIDS:	91-day Treasury bills maturing July 20, 1967		:	182-day Treasury bills maturing October 19, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.016 a/	3.893%	:	98.009	3.938%
Low	99.009	3.920%	:	97.998	3.960%
Average	99.013	3.905% 1/	:	98.003	3.950% 1/

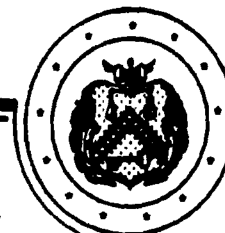
a/ Excepting 1 tender of $150,000
?% of the amount of 91-day bills bid for at the low price was accepted
8% of the amount of 182-day bills bid for at the low price was accepted

TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

trict	Applied For	Accepted	:	Applied For	Accepted
ton	$ 29,554,000	$ 19,554,000	:	$ 22,441,000	$ 1,741,000
York	1,682,441,000	849,067,000	:	1,481,838,000	653,888,000
ladelphia	27,417,000	15,241,000	:	19,084,000	5,284,000
veland	29,441,000	29,341,000	:	29,310,000	13,064,000
hmond	12,250,000	12,034,000	:	3,779,000	3,779,000
anta	40,855,000	25,144,000	:	25,641,000	9,416,000
cago	345,556,000	146,896,000	:	334,116,000	233,538,000
Louis	58,996,000	45,808,000	:	21,544,000	11,444,000
neapolis	17,137,000	11,677,000	:	10,867,000	5,107,000
sas City	29,108,000	25,168,000	:	11,220,000	9,965,000
las	25,441,000	14,873,000	:	19,279,000	9,179,000
Francisco	212,555,000	105,645,000	:	195,447,000	44,173,000
TOTALS	$2,510,751,000	$1,300,448,000 b/		$2,174,566,000	$1,000,578,000 c/

ncludes $273,195,000 noncompetitive tenders accepted at the average price of 99.013
ncludes $107,609,000 noncompetitive tenders accepted at the average price of 98.003
hese rates are on a bank discount basis. The equivalent coupon issue yields are .01% for the 91-day bills, and 4.10% for the 182-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 19, 1967

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 April 27, 1967, in the amount of $2,303,803,000, as follows:

91-day bills (to maturity date) to be issued April 27, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated January 26, 1967, and to mature July 27, 1967, originally issued in the amount of $999,932,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated April 27, 1967, and to mature October 26, 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, April 24, 1967. 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 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 Treasu expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on April 27, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 27, 1967. Cash and exchange 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 exclud from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunc need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which tl return is made, as ordinary gain or loss.

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

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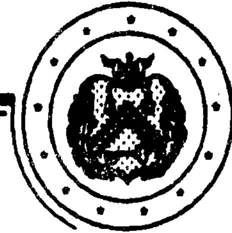
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 19, 1967

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 April 30,1967, in the amount of $1,401,513,000, as follows:

275-day bills (to maturity date) to be issued May 1, 1967, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated January 31, 1967, and to mature January 31,1968, originally issued in the amount of $900,967,000, the additional and original bills to be freely interchangeable.

366-day bills, for $900,000,000, or thereabouts, to be dated April 30, 1967, and to mature April 30, 1968.

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 o the closing hour, one-thirty p.m., Eastern Standard time, Tuesday, pril 25, 1967. Tenders will not be received at the Treasury epartment, Washington. Each tender must be for an even multiple of 1,000,and in the case of competitive tenders the price offered must e expressed on the basis of 100, with not more than three decimals, .g., 99.925. Fractions may not be used. (Notwithstanding the fact hat the one-year bills will run for 366 days, the discount rate will e computed on a bank discount basis of 360 days, as is currently the ractice on all issues of Treasury bills.) It is urged that tenders e made on the printed forms and forwarded in the special envelopes iich will be supplied by Federal Reserve Banks or Branches on plication 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

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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 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 Treasu expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 1, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 30, 1967. Cash and exchange 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 exclude from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereund 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 th return is made, as ordinary gain or loss.

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

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE 14TH ANNUAL INTERNATIONAL
AZALEA FESTIVAL LUNCHEON
GOLDEN TRIANGLE HOTEL, NORFOLK, VIRGINIA
THURSDAY, APRIL 20, 1967, 12:30 P.M., EST

It is a great pleasure for me to have the opportunity to speak here at the headquarters of the NATO Atlantic Fleet. It is an official pleasure because NATO, while it is a key part of our international security, is something more than that. It also has important political and economic aspects in today's world, and I am officially deeply interested in the economic side of NATO.

Apart from this, it is a great personal pleasure for me to take part in this Azalea festival, and join you in honoring the charming young ladies who grace it. In connection with NATO, I feel that it is a most fortunate coincidence that the young lady who has been selected as Queen of the festival this year comes to our shores from Belgium -- an ally small in territorial size -- great in power -- rich in wisdom -- and courageous in time of adversity.

The military headquarters of NATO in Europe has moved this year to Belgium, as you know, and I feel that it is a happy quirk of history that here at the Atlantic Fleet Headquarters at this time we are honoring a lovely representative of the Belgian nation.

At the last NATO Ministerial meeting, Belgian Foreign Minister Harmel introduced a resolution, which has since become known as the Belgian Resolution, or the Belgian Initiative, to set up, within NATO, a high-level commission for the review and examination of the future course of NATO in view of changing conditions. This commission will be particularly concerned with political and economic aspects of the alliance. It will make a preliminary report to the Ministerial Meeting to be held in June, and will make its final report in December.

To conduct such a review is indeed a wise move at this point. For we are looking today at a NATO which is in process of change -- and that change is a tribute to the vast economic and industrial advances which the nations of Europe have made since the end of World War II and the days of the Marshall Plan.

It is against this current, up-to-date backdrop that I would like today to take a look at NATO in the context of the Atlantic Community.

The Atlantic Community has come about for very good reason -- principally the need for free men to band together for protection of their freedom. Many of the underlying factors which brought about the creation of NATO in the first place continue to grow apace -- and despite the headlines, they continue to knit our nations together.

Time and distance continue to shrink.

Businessmen and technicians continue to weave their intercontinental links. The jets are loaded these days with them coming from or going to another continent for some commercial or scientific purpose. The seats they do not occupy hold tourists bent on visiting countries other than their own for reasons of kinship, culture, scenery or sheer pleasure. The health of our economy is associated with the health of the economies on the other side of the ocean. And we know that commerce has become so international that one of my big problems as Secretary of the Treasury is to work out with finance officials of other nations improved international monetary arrangements to avoid restrictions on this commerce and facilitate the free flow of goods, tourists and capital.

There are countless and meaningful links of history, culture, religion and blood. And, of great significance, we share a history of parliamentary democracy. Ideas of government and of the freedom of man have flowed back and forth across the Atlantic. The colonial philosphers drew much of their inspiration and many of their ideas from the writings of ancient Greece and Rome as well as their continental and British contemporaries. Basically we share the same kind of economic and industrial organizations. We

have stable and abundant economies, the kind which, if properly harnessed, could do much to dispel hunger and misery not only in our own countries but in the less developed areas of the world.

We are truly interdependent -- militarily, economically and politically. We are a small world and we are becoming more so every day, despite those who would like to turn the clock back to a past when the nation-state was supreme. Never has the old cliche, "Time waits for no man" been more true than it is today. The clock has passed nationalist thinking.

The North Atlantic Alliance is designed to establish and maintain security for the region. The treaty signed on April 4, 1949, opened a new era in the diplomatic history of the United States, so different from our past history of aloofness and non-involvement that stretched back to our beginnings as a nation. May I add it was also a new era for Western Europe, marking the organization of the mutual security of that war-torn area on a basis far different from the haphazard, and often unsuccessful arrangements of the past.

In the military field, NATO is achieving its basic purpose. It has prevented any further Soviet encroachment in Europe. It has helped create an important by-product of greater reasonableness in Soviet policy toward the West.

It has achieved and, despite French military withdrawals, maintained an integrated planning and command staff and logistic structures. In short, if we are enjoying today a "thaw" in East-West relations, NATO is the peace insurance which helped bring it about -- and this is no time to drop that insurance.

In the rightful current emphasis on making NATO "more than a military alliance" let us not forget that we would be worrying about other and more tragic problems if NATO had not been a successful defensive military shield behind which we could nourish our great prosperity and strengthen our institutions. No doubt we need some changes and modifications in the Fire Department we created eighteen years ago. That recognition of need for change should not suggest that we need a weaker Fire Department in a world where violence and force and the threat of force remain so sadly widespread in the world around us. Let me suggest that it is fitting and only fair that the allocation of the costs of

the modernized Fire Department among those protected should be considered at the same time that the question of forces and other strictly military matters are considered.

I would like to turn briefly now to some of the economic and monetary aspects of NATO and the Atlantic Community which it serves.

All our eyes, these days are turned toward the Kennedy Round negotiations in Geneva. These negotiations are moving toward their late April-early May deadline. The United States' cards are on the table. We want freer trade on a reciprocal basis. We hope that the barriers will continue to fall. And it would tragic -- and there be grave repercussions -- if the Kennedy Round were to fail.

To sustain this trade, we must also assure a financial viability for the Atlantic Community. And, in the context of NATO, an important step is being taken to assure this financial viability. Since last fall, a series of trilateral meetings have been held by the governments of Germany, Great Britain and the United States. One of the purposes of these meetings has been to find a fair solution to one element of the problem of assuring financial viability for the Alliance and the Community it serves.

These trilateral discussions came about partly because of Germany's expectation that in the coming year her purchases of military supplies from the U. S. and Britain will be substantially less than in the past. Prior to this, we had found a solution to the foreign exchange cost of stationing troops in Germany -- where NATO needs them most -- through these German purchases. These so-called "offset" purchases helped to offset the pressure on the U. S. balance of payments at the same time that they enabled Germany to satisfy equipment needs for its NATO commitments in the most efficient manner.

Now, as a matter of fairness, no ally, ideally, should suffer a balance of payments loss or receive a balance of payments gain as a result of participating in NATO. Just as the nations of this alliance work together to provide the men and the weapons which all of us must have for our safety -- so should they cooperate in order to achieve fairness in the financial consequences which the need for these men and weapons bring about.

The system of advance agreement among the allies for purchase from each other of the arms they will need, in prescribed amounts -- the "offset" concept -- can be discontinued, so that each nation can decide what military procurement it wishes to make in the light of that country's obligation to the alliance. However, the allies should also find other ways to deal with the residual foreign exchange effects caused by the basing of military forces away from their native land.

In the tripartite talks which our government is conducting with Germany and Britain, our position is that decisions on the force levels each nation supplies should be made jointly, in NATO, and not unilaterally, and that they should be made on the basis of broad security considerations. The talks were designed as a preliminary to the NATO force level talks to be held this spring. They are proceeding satisfactorily, and the three governments will very likely have recommendations for NATO prepared in a short time.

The tripartite talks could well constitute the take-off point for longer-range arrangements. These should seek to remove the foreign exchange constraints which if left unsolved, will weaken the financial fabric on which our community depends.

Earlier I referred to the well established fact that during the eighteen years of the Alliance the economic and financial power of the Western European members has been greatly enhanced -- not only by the atmosphere of relative peace and security that NATO has created, but by a developing fabric of international economic and financial cooperation. The monetary reserve position of Western Europe has expanded to provide financial strength to the individual countries and to the area. The United States, through its military expenditures in NATO, has made a clear and tangible contribution to the building up of the reserves which should be recognized.

The balance of payments adjustment process and new international monetary arrangements are vital to the maintenance of the Alliance and the Atlantic Community in a sound and balanced financial posture.

Today the U. S., after many years of balance of payments deficits and declining reserves, cannot, as it has in the past, supply reserves to the rest of the world without regard to its own reserve position. The supply of the traditional types of reserve assets -- gold and the national reserve currencies -- will fall far short of the demand for reserves in the years ahead. A situation can be foreseen in which countries will be able to increase their reserves only at the expense of losses by other countries -- and a shrinkage of world reserves, just as has been the case in the most recent year, can occur unless a suitable plan for the creation of new reserves is agreed upon.

It is our hope, expectation and position that at the Annual Meeting of the International Monetary Fund in September of this year the Governors will approve the structure and major provisions of a specific plan. The political will to bring them about is up for the test in the forthcoming negotiations. We cannot permit the doubts of one or two to prevent the rest of us from doing what we know must be done.

What is it that we seek? We seek the assurance that when there is a need of reserves as an essential base for international finance in all its aspects this would not lead to retreat into stale and timid and destructive restrictions for want of means to make liquid reserves available.

We seek an open, competitive, fruitful world economy as the indispensable means that will permit us, and the rest of the world, to get on with the work of building a Greater Society of Nations.

We seek, in other words, the financial underpinning that will be necessary for the Atlantic Community to do its job in the world -- in relation to itself, in relation to aiding the developing societies on toward the abundant life, in relation to maintaining and furthering the detente with the Soviet and its allies.

We seek, in short, to assure a better world at peace.

In playing your indispensable role in building this better world you here at Norfolk have our hopes, our thanks and our prayers.

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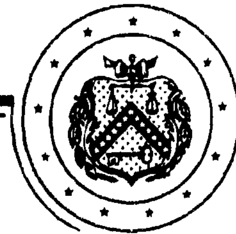
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 20, 1967

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES APPOINTMENTS OF
ASSISTANTS FOR INTERNATIONAL TAX AFFAIRS

Secretary of the Treasury Henry H. Fowler today announced the appointments of Joseph H. Guttentag, as Special Assistant for International Tax Affairs, and Robert T. Cole, as Deputy Special Assistant for International Tax Affairs.

Mr. Guttentag and Mr. Cole will work in the office of Assistant Secretary for Tax Policy, Stanley S. Surrey. Mr. Guttentag will also be Deputy Tax Legislative Counsel (International), and Mr. Cole will be Associate Tax Legislative Counsel (International).

Mr. Guttentag, who is 38, was born in Brighton, Massachusetts. He received an A.B. degree from the University of Michigan in 1950 and an LL.B. at Harvard Law School in 1953.

Before his Treasury appointment Mr. Guttentag was a partner in the Washington law firm of Surrey, Karasik, Gould and Greene. Earlier he practiced law in Detroit, with McClintock, Fulton, Donovan & Waterman. From 1954 to 1957, he was in the United States Air Force, Judge Advocate General's Department.

Mr. Guttentag is a former editor of the Harvard Law Review. He has written and lectured on various aspects of the U.S. Tax System. He currently is Adjunct Professor of Law at Howard University, Washington, D. C.

He is married to the former Merna Cohn of Detroit. They live (at 3901 Harrison Street, N.W.) in Washington, D. C., with their two sons.

Mr. Cole, 35, was born in New York City. He received a B.S. degree in Economics from the Wharton School of Finance and Commerce, at the University of Pennsylvania in 1953, and an LL.B. from Harvard Law School in 1956. He also received an Academic Post Graduate Diploma in Law from the London School of Economics in 1959.

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Prior to joining the Treasury, Mr. Cole was with the New York Law firm of Nixon Mudge Rose Guthrie Alexander & Mitchell. From 1957-1959 he was in the United States Air Force, Judge Advocate General's Department.

A former editor of the Harvard Law Review, Mr. Cole was United States Rapporteur, Congress of the International Fiscal Association, held in Paris, in 1963.

Mr. Cole is married to the former Margaret Hall of Bury, England. They presently make their home in Long Beach, Long Island, and are soon expected to move to the Washington area. They have two daughters.

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TREASURY DEPARTMENT
Washington

FOR USE IN MORNING NEWSPAPERS OF
FRIDAY, APRIL 21, 1967

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE CONTEMPORARY CLUB
INDIANAPOLIS, INDIANA
THURSDAY, APRIL 20, 1967, AT 8:00 P.M., EST

I thought it might be useful to discuss with you tonight some of the Treasury's thinking on one of the great problems of our times: the need for a new level of international cooperation in handling our international economic affairs.

I want to discuss with you two separate aspects of this problem: the need for more adequate international monetary reserves and the need for better means of handling the world's balance of payments problem, including a more cooperative approach to sharing the costs of world economic improvement and world security.

It is almost two years ago now that Secretary of the Treasury Henry H. Fowler drew the world's attention to the need for a fundamental re-examination of the international monetary system. At the heart of the suggestions made in July 1965 by Secretary Fowler was a conviction that if we are to continue the tremendous, and tremendously beneficial, economic growth and improvement which has characterized the free world in the post-war era, there would soon be a need for more international reserves than were likely to be supplied by additions to official reserves in the form of newly available gold or U. S. dollars.

The negotiations that began almost two years ago, based upon these suggestions, were at that time felt in some quarters to be dealing with a problem that, while real, would probably not become pressing for some time. But we in the United States always felt this problem to be of a more imminent nature than did many people in Europe.

Information which has recently become available about the events during the past two years, very strongly confirm our view. The facts are that:

-- During the past two years the traditional processes by which world reserves are increased have not yielded a growth of liquidity;

-- Such inadequate growth of reserves as has occurred in the past two years was due to ad hoc, uncontrolled and impermanent special factors, that cannot be projected to the future.

What, then, has happened recently to dry up the traditional sources of reserve increases?

First, the flow of gold into official reserves, which averaged half a billion dollars a year in 1960-64, has stopped. In 1965, official reserves got only a quarter of a billion dollars additional gold. In 1966, gold in official hands actually declined -- perhaps by as much as $100 million -- for the first time in modern history.

Second, even though U. S. balance of payments deficits continued, these deficits did not show up as they had in the past as additions of dollars to monetary reserves. Why? The answer lies in another crucial fact: the fact that during the past two years conversions of dollars into gold -- chiefly by France -- have more than offset dollar additions to official reserves.

Only one conclusion can be drawn from this picture of prevailing uncertainty as to the future of reserve growth through presently available processes, and that conclusion is the following:

> We can no longer take continued reserve growth for granted. Consequently, since we want our individual economies, and the world economy as a whole, to continue to grow at healthy rates, there is no time to waste before we agree upon a new means for adding to the world's ability to increase monetary reserves.

Let me emphasize that I am not saying that current circumstances altogether rule out any further growth of reserves through the traditional processes for reserve growth. But that is not the point. The point is that the reserve needs of the world -- including the need to reverse the long downtrend in the reserves of the United States -- will substantially exceed any such remaining flexibility that traditional reserves can provide. Consequently, we should not -- indeed, must not -- wait any longer to set up the machinery for the deliberate creation of a new reserve asset.

Now let us look at the balance of payments aspect of the world monetary system.

The United States has had balance of payments deficits in every year since 1950, with the exception only of 1957.

These dollar outflows have been the principal sources of growth in world monetary reserves in the post-war era. Reserves are increased when dollars that go abroad flow from commercial channels into the possession of Central Banks and become a part of a nation's monetary reserves.

By the late 1950's, our dollar outflows had become very large, averaging $3.5 billion a year on the overall, or liquidity basis, in 1958, 1959 and 1960. Since dollar outflows become potential claims upon our gold stock when those dollars come into the possession of official holders abroad, these very large outflows built up dollar holdings abroad to the point that the U.S. Government had to take action to abate the further growth of such claims.

Beginning in 1961, the U. S. Government initiated a series of measures to reduce the balance of payments deficit. It has been -- and is -- our aim to bring our payments into equilibrium without the use of restrictive measures that would disrupt trade and travel, and without abandoning our key roles in free world security and economic development.

Despite a number of adverse developments our deficits, measured on a liquidity basis, have fallen from an average of $3.7 billion in the years 1958-60 to an average of $2.5 billion in the years 1961 through 1964, and, in 1965 and 1966, to $1.3 billion and $1.4 billion respectively. This radical improvement in the last two years occurred despite

an increase in net military expenditures outside the United States due to Vietnam costs exceeding $950 million, and a decrease in our trade surplus -- also accountable, in part at least, to Vietnam -- from the peak level of 1964 by $1.9 billion in 1965 and by $3 billion in 1966.

On the official settlements basis, there was an average deficit of $0.5 billion in 1965-66, compared to a $2.2 billion average in the preceding five years.

In part we are using short-term, temporary measures to dampen our dollar deficits by moderating private capital outflows. We are relying on these holding operations to keep our deficit under control during the period of our special commitments in Southeast Asia and during the period required to realize the benefits of our long-range program. These, of course, may very largely be overlapping time periods.

This short term holding operation tends to obscure both the existence and strategy of the basic program we are employing in the balance of payments adjustment process.

Our basic program -- for coming into a sustainable equilibrium -- is essentially a long term one, aimed at solving the problem by making use of this nation's unexampled economic strength in the context from which that strength has been derived: competitive free enterprise.

Let me stress that our long term measures for achieving sustainable payments equilibrium are not matters for the future. They are in being as a program of action that is already showing effects. Let me summarize them:

Exports

First and foremost, we must maintain levels of costs and prices necessary for a strong competitive position in world markets.

In the export promotion field the Commerce Department is now engaged in a host of important and productive works which have a direct beneficial impact on exports today and provide even greater promise for tomorrow.

The Export-Import Bank has a new rediscount facility, and it is steadily streamlining its lending and guarantee programs.

But we realize that more needs to be done in the export field. To this end, a number of questions are being raised: Has the Government simplified its regulations -- tax and otherwise -- and its financial facilities enough? Is American business throughout the world as imaginative and aggressive as it might be? Must more be done -- perhaps directly -- to stimulate the interest of our commercial enterprises to sell abroad? Have we done enough to compete at home, on a fair and nonrestrictive basis, with goods now imported? We must constantly ask ourselves such questions and re-evaluate the answers.

Travel

The President has announced that he will shortly appoint a Special Travel Task Force to recommend means by which the U. S. Government, working in cooperation with the private sector, can accelerate foreign travel here. Although the travel gap has been widening ($1.8 billion in 1966 compared to $1.3 billion in 1960), receipts from overseas visitors have doubled since 1960. A well-financed, joint Government-private sector effort can surely bring results.

Foreign Portfolio Receipts

By the Foreign Investors Tax Act, the United States has attempted to help make the tax treatment of investors in this country more equitable. The Treasury is now working with members of the financial community to spread the realization that U. S. corporate securities are one of our most promising export products.

In the financial field, several countries have invested a portion of their reserves in longer term United States investments. The yields earned by these investments in long term instruments -- purchased with varying maturities to provide for liquidity needs -- make them a productive manner in which to carry official reserves.

It must be obvious to all concerned, here and in other countries, that the success of this long term program depends importantly on (1) the continued existence of an open, competitive and cooperative international economic order and (2) substantially strengthened multilateral arrangements to insure the financial viability of programs for free world security and aid to developing nations.

Although this should be obvious, we nevertheless continue to find it necessary and relevant to emphasize to our colleagues from other countries that the way in which the United States handles its balance of payments problem also depends on the cooperation it receives from other countries in the process, and upon the way in which other nations with major roles in world economic affairs act in dealing with their own domestic and international monetary problems. We find it also necessary to emphasize that this cooperation is not a matter of helping the U. S. deal with its problem, but is a matter of enabling the world to deal with its payments problem without: undermining the international monetary system; subjecting that system to radical and undesirable change, or withdrawing from commitments involving the security and development of others.

Let me give you an example.

It is a vital part of our long term payments outlook that our income from investments abroad should steadily increase, and should be regarded as a bulwark of long range U. S. balance of payments strength.

To this end, our voluntary program for temporarily moderating our private investment outflow avoids cutting off the flow of United States private investment overseas. What we do seek is to moderate those outflows by means that mitigate their impact upon our international payments accounts.

However, permanent long term improvement here depends importantly upon changes that must take place in other countries. Why?

One reason lies in the fact that in too many countries, governments have so pre-empted the flows of savings that private capital markets are thin and costly.

This results in calls upon American financing for projects in foreign countries that can and should be financed by foreign capital markets. To give you a little insight on this problem and its importance:

Between 1958 and 1965, the United States was a net exporter of capital in the amount of $7.9 billion as a result of foreign issues on the domestic market less domestic issues abroad. In the same period, the Common Market countries were net importers through security issues, and indeed on overall capital accounts they had a net influx of almost $1 billion. In conjunction with that, let us note that in these years the EEC countries were running surpluses on current account amounting to $13.5 billion. Thus, not only was there a failure by these countries to help adjust world payments by the export of capital, but, by importing capital they were defeating the balance of payments adjustment process.

As another example of the role of better international cooperation in overcoming the world's payment problem, let us look at the need for better burden sharing.

The determination of the share a nation should bear in helping to meet the economic assistance requirements of the less-developed world and the security requirements of our community of nations requires difficult and continuous decisions on a host of issues. These issues cannot be resolved solely on the basis of domestic resources or budgetary considerations.

I believe the Asian Development Bank represents the kind of burden-sharing necessary if the industrial nations are, together, to promote economic progress in the less-developed world in the decades ahead. The Bank has capital of nearly a billion dollars, of which $200 million came from Japan, $200 million from the United States, $415 million from other regional donors, and $150 million from Western Europe and Canada.

While no absolute precision is suggested in the relationship of these numbers, they reflect a realization on the part of many nations that they have responsibilities, that they must meet them, and that the United States should not and cannot bear the whole burden, or even a majority of it any longer.

We will be asking the Congress this year for new funds for the Inter-American Development Bank, the International Development Association, and the Asian Development Bank. In making each request, we have asked and will continue to ask ourselves:

(a) What are other donor countries contributing?
(b) How aggressively have the institutions in question attempted to borrow in the capital markets of other donor countries?
(c) What are the recipients doing, through self-help efforts, to utilize the money efficiently?
(d) What safeguards are the institutions providing for donor countries that may from time to time be in balance of payments difficulty themselves?

The U. S. Government has acted vigorously on its own to reduce the foreign exchange costs of economic assistance and military outlays.

Net dollar outflows on government grants and capital have been reduced from $1.1 billion in 1961 to an estimated $736 million in 1966. In addition, there is increasing effort to make sure that Government-financed exports do not substitute for commercial exports that would have been purchased in any event.

Between 1961 and 1965 net military foreign exchange expenditures were reduced from $2.5 billion to $1.6 billion despite the Berlin Crisis. In 1966, because of Vietnam, the gap widened again. But even without Vietnam the burden on the United States balance of payments from its contribution to international security could be large. The United States has vast resources -- we have been and are willing to utilize them generously in the defense of freedom but the foreign exchange problem adds complications.

It comes down to this: alliances which rest on important political, social, economic and military plans should not be made vulnerable because foreign exchange financing problems have not been resolved.

We should be able -- indeed we must find ways -- to work constructively with our allies on forms of multilateral financial arrangements designed to neutralize the foreign exchange consequences of the locations of our troops and those of our allies. The arrangements should be long term and provide financial viability to our alliances. Discussions now under way between the United States, the United Kingdom and the Federal Republic of Germany designed to work out security and financial arrangements in a trilateral setting may point the way to designs that could embrace other multilaterial arrangements.

It is not only the Treasury that is worried about the kind of world that we are going to have in the near future should we fail to act as a community of nations, and to act soon, to renew and strengthen the types of international economic cooperation that I have been discussing. Our hopes, and our fears, are widely shared in the Congress and, I think it is safe to assume, therefore,in the country.

There is concrete evidence of this. Permit me to cite, in support of my view, the following words from a report of the Sub-committee on International Exchange and Payments of the Joint Economic Committee of the United States Congress issued last fall, and significantly entitled: "Twenty Years After: An Appeal for the Renewal of International Economic Cooperation on a Grand Scale". This said:

> "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."

For many months now we have been asking for a rededication of the great community of nations embracing Western Europe, the Americas, Japan, Australia and New Zealand to the proposition that we shall each gain the most individually when we cooperate to gain the most altogether. We have reminded our friends and allies that if this rededication is not very soon seen to be forthcoming in concrete terms some rather unpleasant alternatives must be faced. These pleas and warnings have been taken by some as a suggestion that the United States is in the process of making a radical change in its international monetary policies.

Nothing could be farther from the truth.

What has been changing, what has changed and what is subject to even further change is our view of what other nations can and -- in view of the very much improved economic circumstances abroad -- what others should do. We think they can and should do much more by way of cooperation than they could have done in the past. We think that others can and should now do unto the world economy as we have done unto that economy ever since World War II.

Let me spell that our just a little.

We are exerting every effort in our discussion of our balance of payments problem, in our programs to solve that problem, and in our negotiations for the improvement of international monetary arrangements to the end that there should be no change in our basic international monetary policies.

With respect to gold, let me note two recent and controlling statements by the Treasury:

> On January 10, in response to inquiries with respect to press reports from Paris suggesting that study be given to raising the price of gold as one of the means of meeting international liquidity needs, the Treasury stated:

> "The price of gold is determined by its relationship to the United States dollar. This relationship has been fixed at $35 per ounce since 1934, and will remain there. Any suggestion that the price of gold be raised -- either to meet needs for additional international liquidity or for any other reason -- is completely unacceptable to the United States. Future international monetary arrangements must be based on this fact. This has been made clear to French financial authorities."

On April 11, in response to inquiries concerning statements made the week before as to the possibility of any change in current U. S. gold policies, the Treasury said:

> "(1) These statements have no official standing or inspiration. They were made by private citizens and reflect only their own views;
>
> (2) There is no contemplated change in U. S. policy toward the buying, selling or price of gold.
>
> (3) This has always been our position and remains so."

Perhaps our posture would be even better understood if we spelled out just a little the roots of our international economic policy as it stands today as an index of the responsibilities of the rest of the world if we are to be able to continue our policies unchanged.

In the 1930's and during World War II a vast part of the world's monetary reserves flowed to this country.

In the two decades since World War II, the United States, has operated as the world's banker, by reason of taking over the responsibilities of the world reserve currency nation. In this role the United States has recycled world reserves, restoring a sound and balanced pattern of monetary reserves among the nations, in good relation to the size of national economies and the participation of nations in the world's trade.

Now the important thing here is to understand clearly how this was done.

Reserve holdings were restored through the adoption and long continued operation of a foreign economic policy which is unparalleled in world history and which has resulted in an unexampled era of world economic and social and political improvement. The principal elements of U. S. foreign economic policy by which a viable and, indeed, highly beneficial international monetary system has been established since World War II are the following:

1. A liberal trade policy, by which the U. S. has permitted most of the world to lift itself by its own bootstraps through ever more open access to the largest, richest, and most swiftly growing market in the world, the United States market.

2. A liberal view of our responsibility for the economic well-being of other countries, through which we have laid out $15 billion for assistance to Western Europe under the Marshall Plan and, subsequently, through Fiscal Year 1966 $50.7 billion for development assistance to the less developed countries.

3. A liberal and conscientious view of our responsibilities -- in a world too weak to defend itself -- for the defense of that world against the dangers of aggression from the Marxist world. We have borne the chief costs of this burden and we still do so today. In the defense of freedom, we have spent no less than $860 billion from 1946 through 1967.

4. A liberal policy towards the world's need for private capital under which U. S. bankers and other businesses have been free to go almost anywhere with their money without limitations as to amounts.

It is the dollar outflows resulting from these policies which rebuilt the world's reserves, chiefly the reserves of the other industrially developed nations in Western Europe ,

the British Commonwealth and Japan. The dollars that have lodged in official accounts as a result of our trade, aid and capital outflow policies have been used to the extent desired by foreign governments to rebuild their gold stocks because we have followed without change our policy of converting official holding of dollars into gold at $35 an ounce.

I think it is possible to summarize this whole rather complex sweep of events fairly simply as follows:

> We wound up World War II with a large monetary reserve. Through open-handed trade, aid, and capital outflow policies that have benefited the rest of the world -- and the United States -- to an unprecedented degree, we have recycled that surplus to fertilize the world economy and make it grow as never before.

What we now say to the rest of the world may be summarized, I think, as follows:

The work of rebuilding the world's reserves -- and in this way reconstituting the world economy shattered by the Great Depression and World War II -- has been done by the United States.

The present and controlling fact is that the job is finished.

It is now up to the rest of the world to join with us in keeping this good work going.

Nations that have continuing surpluses should be aware that they are just as much out of balance as nations that have continuing balance of payments deficits.

Nations with continuing surpluses should realize that there is an obligation upon them to take positive action, through liberalized trade, aid, defense burden-sharing, and capital outflow policies to recycle their surpluses to do the world's work, rather than to hoard their surpluses.

Finally, it should be realized by the world that it is only in the presence of this two-way balance of payments adjustment pattern that nations with continuing deficits can expect, or be expected, to come into sustainable equilibrium through the use of sound internal and external economic policies.

Let me just add that the plan for reserve creation that we are seeking during this Summer is completely apart from the balance of payments problem. No one in a reasonable

frame of mind can suppose that we would seek a new reserve asset to supplement dollars and gold only to weaken the value of that asset by attempting to use it to finance chronic payments deficits. Our objective is to reach balance of payments equilibrium by the virtues of our own economic strength and through the soundness of our own economic policies, operating together with the appropriate cooperative actions of the rest of the world along the lines that I have just mentioned.

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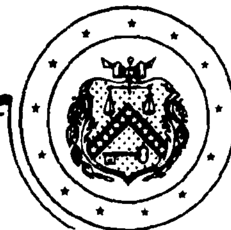
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 20, 1967

FOR USE AT NOON
THURSDAY, APRIL 20, 1967

TREASURY ANNOUNCES
COUNTERVAILING DUTY ORDER ON STRUCTURAL
STEEL UNITS FROM ITALY FOR
ELECTRICAL TRANSMISSION TOWERS

The Treasury Department announced today that it has sent to the Federal Register for publication a notification of countervailing duties to be imposed on importations from Italy of steel units for electrical transmission towers.

The countervailing duties will be assessed on all importations of these steel units entered following 30 days after publication of the notification in the Federal Register. These duties are intended to counteract subsidies paid by the Government of Italy on exports to the United States of the steel units in question.

The amount of the countervailing duties will be equal to the amount of the subsidy. This was declared in the Treasury Department's notification to be 13.67 lira per kilo. At the current exchange rate of the lira, this is equivalent to $22.40 per long ton (2240 pounds).

The countervailing duty action is the result of an extensive investigation conducted by the Bureau of Customs following a complaint of subsidization submitted by an *ad hoc* committee of galvanized transmission tower fabricators. The committee's complaint was filed pursuant to section 303 of the Tariff Act of 1930 (19 U.S.C. 1303).

The following fabricators were represented on the *ad hoc* committee:

Nashville Bridge Company, Nashville, Tennessee
United States Steel Corporation, Pittsburgh, Pa.

F-887

Lehigh Structural Steel Co., Allentown, Pa.
Bethlehem Steel Co., Pittsburgh, Pa.
Blaw-Knox Company, Pittsburgh, Pa.
Anchor Metals, Hurst, Texas
Muskogee Iron Works, Muskogee, Okla.
Creamer and Dunlop, Tulsa, Okla.
Flint Steel Corporation, Tulsa, Okla.

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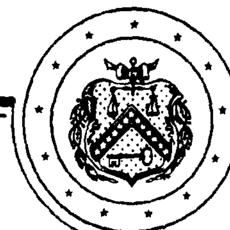
TREASURY DEPARTMENT



WASHINGTON, D.C.

April 19, 1967

In response to inquiries, the Treasury Department said today:

The Treasury has no comment on the Communique of the Finance Ministers of the EEC nor on press reports of the Ministerial meeting at Munich pending further clarification. Representatives of the EEC countries will be attending meetings beginning next Sunday of the Group of Ten and Joint Meetings of that body with the Executive Directors of the IMF. At those meetings, the positions of the EEC countries can be more accurately determined. The U. S. position with respect to international liquidity is unchanged. The United States continues to believe that there is a pressing need for a plan that, when activated, will provide an adequate supplement to monetary reserves of gold and dollars, so as to insure the continued growth of a sound world economy.

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RELEASE
DAY, APRIL 21, 1967

Address of the Honorable Robert A. Wallace
Assistant Secretary of Treasury
Before the
Annual Seminar of the Municipal Treasurer's Association
Disneyland Hotel, Anaheim, California
April 21, 1967, 2:15 p.m. PST

THREE TAX ISSUES IN THE NATIONAL ECONOMY; THE 6% SURCHARGE, INDUSTRIAL BONDS AND REVENUE SHARING

One of the rare opportunities enjoyed by those of us serving in the Government is meeting from time to time with distinguished groups from different parts of the country. It is a special privilege for me to meet today with the Treasury's municipal counterparts here in California, and to share with you some thoughts about matters of mutual concern.

There has always been much comment about the stepped-up activities and growing complexity of Federal finances. However, it seems to me that even greater changes have occurred in the municipalities, where the vast new challenges of today's mobile society demand diligent effort and resourcefulness from each of us. The sheer proximity of large numbers of people brings special problems and costs to city governments. Your particular jobs -- the responsibilities as well as opportunities -- can be well described with one of the newer phrases: That's where the action is.

For example, I am confident that the average citizen does not realize just how much his own demands for municipal public improvements and services have grown in the past 20 years. Local expenditures -- including education, transportation, cleaner water, opportunities for recreation, and perhaps most vital of all, economic opportunity -- leaped from $9 billion in 1946 to about $50 billion in 1966. As a consequence, local taxes have multiplied as has local debt. Local debt has ballooned to six times its size 20 years ago while the Federal debt growth -- even with Korea and Viet Nam -- has drifted up only about a fourth -- less than one and a half percent a year.

And, as you know better than anyone else, it is the municipal treasurer who must collect existing local taxes, dream up new methods of financing community improvements, and manage growing debts. This means your responsibilities have piled up. You need skilled technicians to help you meet the challenge. And -- perhaps more important -- you also need political acumen to survive.

Not that I would belittle our federal financial problems, even for a minute. Twenty years ago they had already reached $250 billion. Fortunately our debt hasn't grown as fast as yours or we would be struggling to manage a one and a half trillion dollar federal debt. We have enough troubles with the present level of $330 billion.

This is my first visit to Disneyland, but I dare not tarry. Otherwise, critics may claim that future Treasury policies originated here in Fantasyland.

The Proposed 6% Tax Surcharge

Last January, I think at least a few were firmly convinced that we had already spent some time here. They apparently felt that only Fantasyland could have spawned a proposal for a tax increase when the national economy seemed to them to be headed for a recession. After all, hadn't the last three months of 1966 witnessed a slowdown in personal consumption expenditures, a piling up of unwanted inventories, a deceleration of investment and housing starts at the lowest level since 1957? How could the Administration project a surging economy needing a tax hike in the face of such indicators?

I thought I overheard one observer remark that Treasury, rather than Adam Clayton Powell, should have issued the record, "Keep the Faith, Baby."

Blind faith, of course, played no part in formulating our recommendations. As Treasurers yourselves, you know that tax increase proposals do not win popularity contests. So you also know that such a policy would never be advanced without the most careful analysis and thorough consideration.

When the 6% surcharge was proposed last January, we fully expected that the first half of 1967 would be sluggish. What else could we have anticipated with sales increases slowing down in the midst of bloated inventories? Therefore, the April estimate of First Quarter GNP showing only a $5 billion increase did not surprise us.

But, we estimated and still expect a very different picture in the second half of 1967. That, of course, is the basis for the tax proposal.

Of course, those of us who study economic trends possess no powers) foresee all eventualities. In the absence of such powers, we must depend ı the simple tools of logic and the best statistics we can muster. We noted, ›r example, that while consumers had not been buying as much as usual, the ıct remained that personal income was high and growing.

People obviously have been increasing their liquid assets as evidenced the jump in the amount of savings flows into the nation's thrift institutions. the potential buying power is there. And, we can still expect a resumption a higher rate of economic activity in the second half of 1967.

In the meantime, while individuals may temporarily be saving more than ual, many kinds of expenditures have continued to move higher. Personal ending for services has maintained a fast pace. Your own expenditures for nicipalities -- in fact all expenditures of state and local governments -- e still pushing strongly upward. The defense expenditures of the Federal vernment will keep on rising, and higher transfer payments are sure to me from Social Security benefit hikes. Meanwhile, easier credit conditions ve already begun to loosen the logjam that held back housing expenditures st year.

All this means rising demand which should stimulate business investment -- vestment that can be more easily financed in this year's money and capital kets.

The strong rise in demand, which our analysis indicates will occur er in the year, could lead to growth at rates which cannot be sustained hout inflationary pressures.

The recent spate of good news -- upturns in industrial production, sing, retail sales and bank credit; the containment of price increases unemployment levels -- supports our projections for a higher rate of wth. Thus, our January projection of a slow first half and a booming ond half, which critics have panned is actually panning out. We were fident that it would, but we have, nevertheless, maintained a safety tor: the tax increase was not proposed to take effect until it will needed, after midyear.

We are not attempting to predict exactly when the economy will shift high gear or when we should start easing on the brake with a tax harge. I am sure that it will not be done until our projections of a nger second half of 1967 can be backed up with more statistical evidence. I firmly believe that such evidence will become abundant.

Without tax rate increases we have withstood $20 billion of extra defense expenditures since the Viet Nam escalation began in July 1965, and we will spend an additional $5 billion before June 30. But, total defense expenditures will rise still another $5-1/2 billion in fiscal 1968 and we are convinced that it must be financed out of current revenues if we are to avoid new inflationary pressures. At the same time, proposed civilian expenditures have been held to minimum levels, and we hope very much that Congress will not increase them. Thus, without the proposed surcharge, we would face a budget deficit of some $13 billion -- clearly inflationary when imposed on an economy with little slack.

President Johnson's tax reduction programs of 1964 and 1965 cut our tax payments by $24 billion at 1967 income levels. A 6% surcharge would reduce this tax saving to about $18 billion. Three-fourths of the earlier tax cuts would, therefore, remain in force.

In considering whether a 6% surcharge to finance added spending to support our soldiers in Viet Nam is asking too much of Americans, we should bear these points in mind.

Tax Exempt Industrial Bonds

Let me turn now to another subject of particular interest to you as municipal officials concerned with improving the economic and industrial bases of your areas and to the Treasury which is responsible for tax policy. This concerns the issuance of tax-exempt securities to finance aid to private companies locating in particular States and localities.

At present, State and local governments in about 32 States may issue tax-exempt industrial development bonds in order to build facilities for lease or sale to private companies, for purposes of attracting industry into the area. We estimate that through 1966 more than one and a third billion dollars of industrial development bonds have been issued, most of it since 1960. The recent increases result from the fact that more States and localities have begun to use this device -- some to finance facilities for use by very large companies whose fixed capital requirements are quite extensive.

Over the years there has been considerable discussion concerning the use of tax-exempt bonds for this purpose, and this issue has become a very significant one in view of the number of States and localitities involved and as companies of considerable size are gaining advantage from the use of funds secured through tax-exempt financing.

As Secretary Fowler pointed out in a statement before the White House Conference for State Legislative Leaders last June, the practice of

industrial development bond financing is defended on the grounds that it helps to bring industry and jobs to low-income, labor-surplus areas. However, thoughtful critics have prophesied that the practice would eventually become self-defeating. The advantage to any State or municipality decreases as more States and localities enter the field.

Recent experience appears to support this view. If this trend continues, a situation will develop where large amounts of Federal funds are being expended through the tax exemption feature with no corresponding economic benefit. Industrial development bond financing is therefore a high priority issue under active study by the Treasury Department.

Apart from the fact that no locality can attract firms with promises of industrial development bonds, if all other localities are doing the same thing, there is another serious problem in industrial development bonds of which you should be aware. This has to do with the mechanics of tax-exempt interest which causes interest costs to rise.

If there were in existence only a few tax-exempt bonds, one would expect that these would be bought up by the few high rate taxpayers who would benefit most by tax exemption. There are an appreciable number of individual taxpayers facing a marginal rate of 70 percent. Thus, if we had only a few tax-exempt bonds, the competition between these buyers would drive interest rates on these bonds down sharply, probably to a level close to 70 percent below rates on comparable taxable issues. In fact, however, there are already a lot of tax-exempt bonds in the market; and the sellers have had to turn to buyers with much lower marginal tax rates than 70 percent. The marginal buyer in a lower tax bracket determines the market rate on these bonds. The bonds carry, therefore, a much lower discount compared to taxable bonds than would occur if there were only a few exempt bonds. Our own recent estimate of this discount was only about 30 percent.

If the supply of tax exempts expand much further, this can only continue to push down even more the discount which tax exempts carry and thus increase borrowing costs for traditional State and local functions.

Revenue Sharing

Finally, I would like to touch briefly on the rather delicate and also extremely complex issues of revenue sharing. The attractiveness of a new source of funds for State and local use cannot be denied. Perhaps something may ultimately come of this, but not for some time for two reasons: First, there are no current Federal budgetary surpluses -- only deficits, and this will likely continue at least as long as the Viet Nam conflict. Second, there are a great many issues to be decided before any revenue sharing program can be launched.

All of you are aware that the proposals for revenue sharing take a variety of forms. Of the bills introduced in the 90th Congress, some propose the return of a percentage of Federal income tax collections (primarily income tax collections, but in some cases all tax collections) to the States in which they are collected. Others, like the so-called Heller-Pechman proposal, would return to the States on a per capita basis an amount equal to 1 or 2 percent of the Federal individual income tax base. Still others propose tax sharing to provide Federal assistance for educational purposes only, others for education, health, and welfare; and one bill would make the money available for law enforcement. Another bill would tie the money to modernization of State and local government with each State's modern government program being reviewed by regional coordinating committees and the Advisory Commission on Intergovernmental Relations before it received a share of the funds.

As to the use of the money, some bills leave it completely unencumbered; and some bills attempt broad directions as to use. Certainly, the deepest cleavage as to use of the money lies in the different ways that cities are provided for. Some bills leave the local distribution entirely to the State. Others provide that a specific percentage should go to local governments, although they are usually vague as to what local government units are to share in the funds.

With such a variety of friends, the idea of revenue sharing hardly needs any enemies.

The crucial nature of this problem is also highlighted by the fact that the tent of revenue sharing includes those who want to see it in addition to the expected growth of categorical grant-in-aid programs plus others who want to see it instead of some future growth in categorical grants. It would seem that the revenue sharing question is subsidiary to a number of expenditure questions, that must be settled beforehand.

Some supporters of revenue sharing argue that no matter how expenditures develop some pressure needs to be taken off State and local tax systems. This, however, is possible without revenue sharing, for example, by a more generous credit device against Federal taxes along lines that have been explored by the Advisory Commission on Intergovernmental Relations. One advantage of these devices, compared to revenue sharing, is that they preserve the identity between the government that plans the expenditure and the government that sets the tax rate. A major disadvantage of tax credits is that they leave less room for equalization between States.

It has been a real pleasure to be with you here today. Thank you very much.

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Supplementary Statement of Robert A. Wallace
Assistant Secretary of Treasury, before the
California Municipal Treasurer's Association, Disneyland Hotel
Anaheim, California, April 21, 1967, 2:15 p.m.

20 QUESTIONS TO BE ANSWERED BEFORE DECISIONS ON REVENUE SHARING CAN BE MADE

1. Some revenue sharing proposals are based on an anticipated and continuous growth in Federal revenues. How much growth in revenues can we be safe in counting on, taking economic fluctuations into account?

2. To the extent that there is such a dependable growth in Federal revenues, how should it be divided as between (a) tax reduction, (b) greater expenditures for national programs, (c) debt retirement, and (d) more expenditures for States and localities?

3. To what extent is there a fiscal imbalance between Federal and State governments? Some studies indicate that State and local governments face growing financial problems, but others assert that their growing programs can be financed without further extensive tax increases.

4. To what extent is revenue sharing merely a device to circumvent State and local electorates who have rejected new tax proposals designed to finance additional spending?

5. What would be the effect of revenue sharing on Federal fiscal flexibility? Would it be politically possible to cut back such a program if the nation were to become involved again in a massive defense effort, or if inflation became a serious problem?

6. Is it proper to separate the spending and taxing function, with Congress levying the taxes but others making the spending decisions?

7. Would the granting of Federal tax credits to individuals for a percentage of State and local income taxes be preferable to fund allocations?

8. Should revenue sharing replace existing grant-in-aid programs or be in addition to them?

9. If a partial replacement of existing programs is contemplated, on what basis should cutbacks be made?

10. Should fund allocations be made on the basis of annual Congressional appropriations or direct disbursement?

11. If the appropriations process is followed, would this lead to great uncertainties each year as to how much money will be made available?

12. If direct disbursement is used, would this be an abdication of the Congressional power of the purse?

13. What general formula should be used for distribution of funds? Distribution of percentage of Federal income tax collections from each state, per capita basis, proportionately more for the poorer states, or some other method?

14. Should funds be used for purposes of national policies; or should they have strings attached? If strings are attached, how would they be enforced?

15. If funds are to be used for national purposes, what should these purposes be -- education, health and welfare, urban renewal, law enforcement or some combination of these?

16. How should funds be allocated within the States as between the State, cities, counties, school districts, sanitary districts, park districts, etc.?

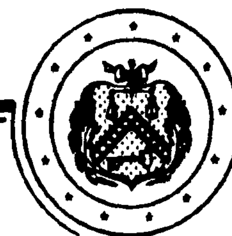
17. Should there be standards to assure honest and efficient use? If so, what should they be?

18. If standards are to be enforced by the Federal Government, what agency would enforce them?

19. If standards are to be enforced within the States, this could involve 50 different groups. Would such a decentralization of planning and administration of standards be efficient and appropriate?

20. What about Civil Rights requirements connected with grants? Would these be extended or ignored?

TREASURY DEPARTMENT



WASHINGTON, D.C.

'OR RELEASE 6:30 P.M.,
'onday, April 24, 1967.

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 January 26, 1967, nd the other series to be dated April 27, 1967, which were offered on April 19, 967, 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 there-bouts, of 182-day bills. The details of the two series are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	91-day Treasury bills maturing July 27, 1967		:	182-day Treasury bills maturing October 26, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.067 a/	3.691%	:	98.106	3.746%
Low	99.058	3.727%	:	98.086	3.786%
Average	99.061	3.715% 1/	:	98.093	3.772% 1/

a/ Excepting 1 tender of $300,000
92% of the amount of 91-day bills bid for at the low price was accepted
50% of the amount of 182-day bills bid for at the low price was accepted

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

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 19,444,000	$ 9,444,000	:	$ 25,895,000	$ 15,895,000
New York	1,638,642,000	922,502,000	:	1,382,991,000	807,991,000
Philadelphia	29,944,000	17,781,000	:	17,880,000	5,880,000
Cleveland	29,274,000	29,210,000	:	29,338,000	24,338,000
Richmond	11,505,000	11,505,000	:	2,626,000	2,626,000
Atlanta	44,619,000	32,519,000	:	29,102,000	15,502,000
Chicago	312,962,000	125,962,000	:	253,816,000	52,816,000
St. Louis	49,636,000	43,612,000	:	24,015,000	21,665,000
Minneapolis	16,306,000	12,266,000	:	10,068,000	7,318,000
Kansas City	32,763,000	30,763,000	:	9,905,000	9,905,000
Dallas	24,528,000	15,448,000	:	14,634,000	7,134,000
San Francisco	154,110,000	49,710,000	:	65,619,000	29,269,000
TOTALS	$2,363,733,000	$1,300,722,000	b/	$1,865,889,000	$1,000,339,000 c/

Includes $259,206,000 noncompetitive tenders accepted at the average price of 99.061
Includes $96,137,000 noncompetitive tenders accepted at the average price of 98.093
These rates are on a bank discount basis. The equivalent coupon issue yields are 3.81% for the 91-day bills, and 3.91% for the 182-day bills.

TREASURY DEPARTMENT
Washington

FOR RELEASE: UPON DELIVERY

REMARKS BY THE HONORABLE HENRY H. FOWLER
CHAIRMAN OF THE BOARD OF GOVERNORS
GOVERNOR FOR THE UNITED STATES AND
SECRETARY OF THE TREASURY
AT THE INAUGURAL SESSION, EIGHTH ANNUAL MEETING
BOARD OF GOVERNORS, INTER-AMERICAN DEVELOPMENT BANK
SHOREHAM HOTEL, WASHINGTON, D.C.
MONDAY, APRIL 24,1967, 2:30 P.M., EST

On behalf of the Government and the people of the United States, it is an honor to welcome this highly distinguished assemblage attending the Eighth Meeting of the Board of Governors of the Inter-American Development Bank. It is a great personal honor that has been given to me to preside at this first meeting in Washington, the seat of the Bank. I know that the heavy and extensive program of work laid out for us this week will contribute to the continued success and growth of this great institution.

As in all years, we are meeting to further a great common cause -- the well being and improvement of our hemisphere and the world. This year our meeting has a special significance in the light of the just completed historic session of our Presidents at Punta del Este, Uruguay, where our Inter-American Development Bank has been given major assignments in agriculture, education and health activities, and in furthering multi-national projects. These efforts are not only important in and of themselves, but they are a basic prerequisite to success in achieving meaningful economic integration and the development of a great Latin American common market.

The Presidents of our countries already have set the theme for this meeting when they recognized the benefits of joint action to accomplish the goals of integration and development, and stated:

-- Latin America will create a common market.

-- We will lay the physical foundations for Latin American economic integration through multinational projects.

-- We will join in efforts to increase substantially Latin American foreign trade earnings.

-- We will modernize the living conditions of our rural populations, raise agricultural productivity in general and increase food production for the benefit of both Latin America and the rest of the world.

-- We will vigorously promote education for development.

-- We will harness science and technology for the service of our peoples.

-- We will expand programs for improving the health of the American peoples.

-- Latin America will eliminate unnecessary military expenditures.

A great deal has transpired since we met in Mexico City a year ago. There has been progress in the Hemisphere under our Alliance for Progress, and the Bank has continued to make its important contribution to that progress. We have increased flows of external assistance. Further, we have increased self-help performance in mobilizing domestic resources and in carrying out necessary reforms. We will hear further during the next few days how this institution of ours, the "Bank of the Alliance," the "Bank of Integration," the Inter-American Development Bank, has led the way in this hemispheric war against special privilege and poverty. We have come a long way since 1960, for we no longer have to hold out hope with mere words. There are activities in operation which further the economic and social being of the peoples in the member countries. Our Bank, which has passed the $2 billion mark for loan commitments, has touched almost every facet of the economic and social fabric in this Hemisphere.

We truly have an historic meeting in front of us. The Board of Executive Directors and the Management of the Bank, under the outstanding leadership of President Felipe Herrera, has had a record year and has developed a full tentative agenda for our consideration to set the stage for the future. We

are called upon to respond to the needs and aspirations of the peoples in this Hemisphere by requesting our governments to expand the resources of the Bank, both in the Ordinary Capital and the Fund for Special Operations. We have had submitted to us a recommendation on the admission of the first new member to this young institution. We are asked to consider the steps which need to be taken to accelerate resources from non-member countries to the Bank. Finally, we will need to act on a new procedure for the election of Executive Directors.

This is indeed a large task, but I am sure that when the week ends we will have carried out our responsibilities and will be able to present to our governments successful fruits of our labors.

The wide respresentation at this meeting from every part of the world, covering both public and private institutions, is another sign of the importance of our institution and these deliberations. These organizations and governments have an important role to play in the development of the Hemisphere. One of the reports placed before us by the Board of Directors clearly sets forth the positive role many of the industrialized countries of the world have played in the development of the Hemisphere through the provision of resources to the Bank. On the other hand, it also reports conditions that call for correction where non-member countries are benefiting from Bank resources without any commensurate recognition of the Bank's capital needs and requirements.

It is significant that we have present here representatives of the foreign and domestic private sector. We welcome them -- representatives of business, labor and cooperatives -- and I am sure we do not have to stress before this audience the truism that the free private sector in each of the countries is the key to a successful development effort. The flow of private investment, which has improved recently, has not yet achieved the necessary level to accomplish our broad objectives. It is important that all of our governments take all possible steps to accelerate and facilitate that flow. I hope that the Bank may be able to play a more significant role in this area.

We should congratulate the Bank management on selecting as the topic for the deliberations of the Round Table this year, "Latin American Agricultural Development in the Next Decade". There is no more crucial facet of the development of the Hemisphere facing us today than the problems of rural development.

We have been indeed fortunate in the United States to have available an up-to-date penetrating survey and analysis conducted in U. S. Congress on the problems of agricultural development in Latin America and of the Bank's role. I commend to the Governors two extremely valuable reports of the Sub-committee on International Finance of the House Banking and Currency Committee, under the able and inspired leadership of Representative Henry S. Reuss. These reports conclude that the emerging world food crisis can be avoided in Latin America, where indeed the prospects for expanded food production are far more favorable than in other developing areas of the world. What is needed is additional capital both from domestic and external sources, additional investments and -- crucially -- more adequate and purposeful comprehensive planning for agricultural development. The Bank, too, has taken exceptional intellectual leadership in dealing with this problem by undertaking a challenging study entitled, "Agricultural Development in Latin America: Current Status and Prospects," and has carried this forward by contuinuing here at the Shoreham Hotel for the rest of the week the Round Table Discussions.

This year will be an historic year for our Hemisphere. We have had the Meeting of the Presidents. We are inaugurating here today our Eighth Annual Meeting of the Inter-American Development Bank here in Washington. In September, our sister institutions, the International Monetary Fund and the International Bank for Reconstruction and Development will meet in Rio de Janeiro, Brazil, to face some major international financial issues.

In inaugurating our deliberations I believe we have a responsibility to take into account the arena of international financial problems in order to place our discussions in the proper context. We are actively engaged in negotiations on the future of the international monetary system and new arrangements to assure the continued and adequate growth of

international liquidity. This is a matter of vital interest to us all, and to the future of the Bank, which I am confident will culminate in historic decisions in Rio de Janeiro.

Another financial problem of hemispheric concern is the problem of the United States balance of payments. The termination of the persistent deficit in the United States balance of payments and the continued strength of the dollar as the keystone of the international monetary and trading system remain objectives of the highest national priority to the United States. The report of the Executive Directors before us at this meeting provides recognition that these objectives are also of interest to the Bank, and I am sure that my fellow Governors will agree that these objectives are of critical interest for each of their nations individually as well as for the Hemisphere as a whole. What is required is a continuing cooperative effort, taking account of the role and responsibilities of the United States throughout the free world, and designed to avoid actions which by threatening the United States balance of payments would also endanger continued assistance to free world development and the search for growth with stability.

I am pleased to note, as Governor for the United States, the cooperative measures adopted in the Bank and the further measures proposed by the Directors for our consideration during the coming week in conjunction with redoubled self-help and mutual assistance efforts. The United States, for its part, takes its responsibility very seriously -- both toward the Bank, in which it is the major stockholder, and toward the Hemisphere. By its actions in the past, and, I can assure you, today the United States strongly supports the concepts of multi-lateral assistance embodied in the Charter, and the important place of Latin America in the world.

As an introduction to a most significant week I have only sketched for you the highpoints. I am sure there will be opportunity for all delgations, including the United States, to comment on these and other important matters.

In addressing ourselves to the task before us in the coming week, let us bear in mind the words which President Johnson at Punta del Este addressed to the youth of our nations:

> "The time is now. The responsibility is ours. Let us declare the next 10 years the Decade of Urgency. Let us match our resolve and our resources to the common tasks until the dream of a new America is accomplished in the lives of all our people."

I again welcome all the delgations to my country and dedicate ourselves to the task at hand which will influence the future course of this institution.

I hereby declare the Eighth Meeting of the Board of Governors of the Inter-American Development Bank inaugurated.

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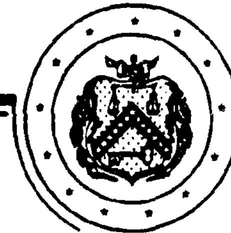
'REASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
iday, April 25, 1967.

RESULTS OF TREASURY'S MONTHLY 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 January 31, 1967, and
other series to be dated April 30, 1967, which were offered on April 19, 1967, were
ed at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or
eabouts, of 275-day bills and for $900,000,000, or thereabouts, of 366-day bills.
details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS:	275-day Treasury bills maturing January 31, 1968		:	366-day Treasury bills maturing April 30, 1968	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.089	3.811%	:	96.122 a/	3.814%
Low	97.044	3.870%	:	96.066	3.870%
Average	97.065	3.842% 1/	:	96.104	3.832% 1/

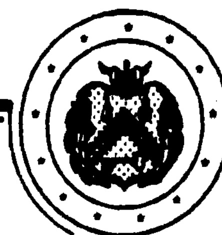
a/ Excepting 3 tenders totaling $1,359,000
75% of the amount of 275-day bills bid for at the low price was accepted
16% of the amount of 366-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	:	Applied For	Accepted
ston	$ 200,000	$ 200,000	:	$ 36,328,000	$ 27,488,000
w York	946,952,000	410,202,000	:	1,102,996,000	659,116,000
iladelphia	5,045,000	4,045,000	:	10,712,000	3,512,000
eveland	655,000	655,000	:	13,705,000	13,705,000
chmond	1,559,000	1,559,000	:	5,827,000	5,827,000
lanta	7,116,000	5,116,000	:	8,367,000	8,367,000
icago	227,783,000	29,283,000	:	267,603,000	120,243,000
Louis	2,940,000	940,000	:	8,085,000	6,085,000
neapolis	8,950,000	8,325,000	:	3,332,000	3,332,000
isas City	1,275,000	1,275,000	:	4,367,000	4,367,000
llas	11,100,000	7,100,000	:	11,375,000	8,375,000
Francisco	51,635,000	31,385,000	:	62,427,000	39,587,000
TOTALS	$1,265,210,000	$ 500,085,000 b/		$1,535,124,000	$900,004,000 c/

ncludes $14,924,000 noncompetitive tenders accepted at the average price of 97.065
ncludes $32,688,000 noncompetitive tenders accepted at the average price of 96.104
hese rates are on a bank discount basis. The equivalent coupon issue yields are
.00% for the 275-day bills, and 4.01% for the 366-day bills.

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 26, 1967

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 May 4, 1967, in the amount of $2,302,827,000, as follows:

91-day bills (to maturity date) to be issued May 4, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated February 2, 1967, and to mature August 3, 1967, originally issued in the amount of $1,002,103,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated May 4, 1967, and to mature November 2, 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, May 1, 1967. 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.

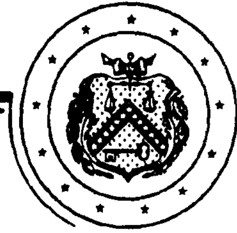
Banking institutions generally may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated 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 tl 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 Treasu expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on May 4, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 4, 1967. Cash and exchange 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 exclude from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereund need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which tl return is made, as ordinary gain or loss.

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

TREASURY DEPARTMENT



WASHINGTON, D.C.

April 26, 1967

FOR USE IN MORNING NEWSPAPERS
OF THURSDAY, APRIL 27, 1967

MAJOR STOVER, COMMANDING OFFICER,
WHITE HOUSE POLICE FORCE, RETIRES, APRIL 30

Major Ralph C. Stover, Commanding Officer of the White House Police Force will retire April 30, 1967, after 34 years of Government service. This was announced today by United States Secret Service Director, James J. Rowley.

Major Stover, 56, was born in Elkhart, Indiana. He attended North Central College, Naperville, Illinois, and the School of Engineering at Minnesota University.

Major Stover joined the Metropolitan Police Department on August 1, 1936 and transferred July 1, 1940 to the White House Police. During World War II he served in the United States Navy and returned to the White House Police Force in 1946. On January 1, 1958 he was promoted to Commanding Officer of the White House Police.

Major and Mrs. Stover have three children; daughter Judy is with United Airlines; daughter Bonnie is a Freshman at Maryland University and son Jeff attends the Rolling Crest Junior High School in Hyattsville, Maryland. The Stovers live at 1303 Legation Road, Hyattsville, Maryland.

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F-892

TREASURY DEPARTMENT

WASHINGTON, D.C.

April 26, 1967

FOR USE IN MORNING NEWSPAPERS
OF THURSDAY, APRIL 27, 1967

NEW COMMANDING OFFICER OF
WHITE HOUSE POLICE APPOINTED

United States Secret Service Director, James J. Rowley, today announced the promotion of Inspector Glenard E. Lanier of the White House Police to Major, the Commanding Officer of this Force. Inspector Lanier replaces Major Ralph C. Stover who is retiring April 30, 1967.

A native of Petersburg, Virginia, Major Lanier, 52, was appointed to the Metropolitan Police Department on October 1, 1940 and transferred to the White House Police on April 9, 1942. On July 3, 1966 he was promoted from Captain to Inspector, the second highest position on the White House Police Force.

Under the supervision of the Director of the Secret Service, the White House Police Force is responsible for protecting the Executive Mansion and the President and his immediate family while in residence.

Major Lanier was the first member of the White House Police to receive a Certificate in Police Administration, from American University. He also received a Bachelor of Science degree in Business Administration from American University and is a graduate of the FBI National Academy.

He served in the United States Navy from July 1935 to September 1939 and from July 1943 to July 1946.

Major Lanier is married to the former Frances Shutters of Washington, D. C. Their daughter, Mrs. Sandra Rowlett, lives in Hyattsville, Maryland; their son, Kenneth, attends the Richmond Professional Institute. The Laniers live at 935 South Wakefield Street, Arlington, Virginia.

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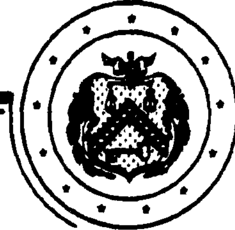
F-893

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE April 26, 1967

TREASURY ANNOUNCES $22.1 BILLION REFUNDING

The Treasury today announced that it is offering holders of the note issue maturing May 15, 1967, and the certificate, note and bond issues maturing June 15 and August 15, 1967, an opportunity to exchange their holdings at attractive yields.

The securities eligible for exchange and those being offered are as follows:

Securities eligible for exchange and their maturity dates		Securities offered in exchange and their maturity dates	
4-1/4% notes, D-1967	5/15/67	4-1/4% notes, C-1968	8/15/68
2-1/2% bonds, 1962-67	6/15/67	4-3/4% notes, B-1972	5/15/72
PREREFUNDING			
5-1/4% ctfs., A-1967	8/15/67	4-3/4% notes, B-1972	5/15/72
3-3/4% notes, A-1967	8/15/67		
4-7/8% notes, E-1967	8/15/67		

The new 4-1/4% notes are being offered at 99.95, which provides a yield of 4.29%. The new 4-3/4% notes are being offered at par. Details showing cash and interest adjustments for subscribers exchanging securities due June 15 and August 15 appear in Table 1. Approximate investment yields appear in Table 2. Both tables are attached.

The public holds $9.0 billion of the securities eligible for exchange, and about $13.1 billion is held by Federal Reserve and Government investment accounts.

Cash subscriptions for the new notes will not be received.

The books will be open for three days only, on May 1 through May 3, for the receipt of subscriptions. Subscriptions addressed to a Federal Reserve Bank or Branch, or to the Office of the Treasurer of the United States, and placed in the mail before midnight May 3, will be considered as timely. The payment and delivery date for the new notes will be May 15, 1967. Interest on the securities maturing June 15 and August 15, 1967, will be adjusted as of May 15, 1967. The new notes will be made available in registered as well as bearer form. All subscribers requesting registered notes will be required to furnish appropriate identifying numbers as required on tax returns and other documents submitted to the Internal Revenue Service. This is a taxable exchange.

Coupons dated May 15, 1967, on the securities maturing on that date should e detached and cashed when due. Coupons dated June 15, 1967, and August 15, 967, on the securities due on those dates must be attached. The May 15, 1967, nterest due on registered securities will be paid by issue of interest checks n regular course to holders of record on April 14, 1967, the date the transfer ooks closed.

Interest on the 4-1/4% notes will be payable on August 15, 1967, and on 'ebruary 15 and August 15, 1968. Interest on the 4-3/4% notes will be pay-ble on November 15, 1967, and thereafter on May 15 and November 15 until aturity.

TABLE NO. 1

Payments due to Subscribers in the May 1967 Refunding

(In dollars per $100 face value)

Securities to be exchanged	Payment to (+) or by (-) subscribers on account of issue price of offered securities	Accrued interest to May 15, 1967, on securities exchanged to be paid to subscribers	Net amount to be paid to subscriber
	For the 4-1/4% Note of 8/15/68		
4-1/4% Note 5/15/67	+.050000	-------- a/	.050000
2-1/2% Bond 6/15/67	-.050000	1.037088	.987088
	For the 4-3/4% Note of 5/15/72		
4-1/4% Note 5/15/67	--------	-------- a/	-------
2-1/2% Bond 6/15/67	-.100000	1.037088	.937088
5-1/4% Cert. 8/15/67	+.300000	1.290746	1.590746
3-3/4% Note 8/15/67	-.150000	0.921961	.771961
4-7/8% Note 8/15/67	+.200000	1.198550	1.398550

a/ Interest will be paid in regular course.

TABLE NO. 2

Investment returns in the May 1967 Prerefunding

Securities eligible for exchange	Approximate investment yield from 5/15/67 to maturity 1/	Approximate reinvestment rate of the extension period 2/
5-1/4% Certificate 8/15/67	4.72%	4.79%
3-3/4% Note 8/15/67	4.72	4.77
4-7/8% Note 8/15/67	4.72	4.79

Office of the Secretary of the Treasury

1/ Yields to nontaxable holders (or before tax) on issues offered in exchange based on prices of eligible issues (adjusted for payments on account of issue price). Prices are the mean of bid and ask quotations at noon on April 25, 1967.

2/ Rate for nontaxable holder (or before tax).

ATTACHMENT

TREASURY DEPARTMENT
Washington

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FOR USE IN AFTERNOON NEWSPAPERS
OF SATURDAY, APRIL 29, 1967

REMARKS BY THE HONORABLE STANLEY S.SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE
THE FEDERAL TAX INSTITUTE OF NEW ENGLAND
JOHN HANCOCK HALL, BOSTON, MASSACHUSETTS
SATURDAY, APRIL 29, 1967, 12:30 P.M., EST

CURRENT DEVELOPMENTS IN TAX POLICY

The topic of Current Developments in Tax Policy is best approached by placing present tax policies in the broader perspective of recent history and future prospects. In this way we can see how our current tax policies fit into a longer range program and a way of thinking about the uses of tax policy. For it is the attitude regarding the uses of tax policy that marks the main theme of tax policy in the present and preceding Administration.

The main economic goal of these two Administrations has been the high level utilization of our real resources within a framework of reasonable price stability -- that is, to achieve a growth in real Gross National Product that matches our potential, with unemployment pushed to as low a level as we can through appropriate fiscal and monetary policies, supplemented by special training and related programs. Also, it has been an important aim to maintain an appropriate balance of payments position, so that accomplishment of our domestic objectives will not be hindered by international financial concerns.

The consistent theme of tax policy through seven years has been to use tax policy in an affirmative manner to achieve this economic goal. It will be the consistent theme in the years ahead. The manner in which tax policy is so used -- the substantive programs which reflect this use -- has changed

and necessarily will constantly change, as the economic conditions in which the goal is being pursued themselves change. For the goal is never won forever -- there is no permanent trophy to be carried home for success in one year or three years. Instead, the coming of each New Year relentlessly challenges us to seek continued advancement toward our goal. We are involved in a perpetual obstacle race, with new obstacles constantly being introduced and old obstacles rearranged to appear different. Insights once obtained must constantly be re-examined and new insights sought if we are successfully to negotiate each net set of obstacles.

In the first years of this decade the main obstacles to be overcome were a growth rate lagging far behind our potential, a discouraging pattern of recessions followed by recoveries that quickly faltered into new recessions, and a consequent high unemployment rate. Tax policy in this setting was aimed at spurring investment, thereby generating a higher productive capacity and more jobs. The substantive tax program involved the adoption of an investment credit to correct a tax structure imbalance that appeared to hamper our obtaining the needed investment level. This credit was supplemented by administrative measures removing restrictive factors in the application of tax depreciation rules.

These 1962 measures were then followed by the massive tax reduction of the 1964 Act, designed to produce a strong consumer demand and the markets needed to encourage our producers to push their investment plans. The reduction in tax rates also acted to improve incentives to invest by strengthening the rate of return and cash flows.

This 1964 tax reduction was the first to recognize the power of our tax structure to generate such a strong revenue intake in periods of rising economic activity that the intake soon exerted a drag on that very activity and made continuous forward progress impossible. The 1964 tax reduction also freed us from the shackles of a rigid budget balance posture and enabled fiscal policy to provide a response that would reflect economic conditions rather than mathematically suit a figure resulting from the additions of many disparate items of expenditure and receipt in our budget. The need to strengthen consumer demand was again reflected in 1965 in the Excise Tax Act of that year, in which that need became the opportunity for a major reform of a crazy-quilt excise tax structure.

These programs met with success -- a strong business expansion, rising incomes and profits, a falling unemployment rate, a GNP capable of sustaining broad social programs. But then in the latter part of 1965 the obstacles changed -- the demands of the Vietnam conflict showed us once again that no economic forecasting is safe against the intrusion of external events we cannot control. A high pace of Government military expenditures demanded that a policy of fiscal stimulus be switched to a program of fiscal restraint, but without clear signs to chart the size or timing of that restraint.

Tax policy was therefore shifted from stimulus to restraint, which called for increasing revenue collections to dampen an inflationary potential. This need became the opportunity to achieve desirable improvements in our current collection procedures. The substantive programs of the Tax Adjustment Act of 1966 reflected this dual target -- graduated withholding, a speed-up in the transition to current payment by corporations, and current payment of the self-employment Social Security tax. This was accompanied by administrative programs in both 1966 and this year speeding up the deposit of withheld taxes and excise taxes. And there is still room for further improvement, as reflected in the President's current recommendations regarding thecorporate estimated tax.

As the year 1966 progressed, with a high level of economic activity insured through strong private investment, strong consumer demand and rising Governmental military expenditures, fiscal policy had to cope with emerging price instability and serious imbalances in the business expansion. Moreover, the tasks of fiscal policy were conjoined by the difficulties being experienced in charting the proper course for monetary policy. These obstacles culminated in September, 1966, in a threatening financial situation, as interest rates rose alarmingly, the money supply contracted, and business investment still proceeded at an unsustainable level.

Suspension of the investment credit was the tax policy response chosen, and another step in tax flexibility was taken. But it was taken with an awareness that the particular step was not without the problems of the two transitions in the step involved -- the transition from allowance of the credit to suspension and the transition from suspension to restoration. This step was therefore accompanied by a frank recognition that only the unusual events of last September -- a serious financial situation, an unsustainable business investment boom, and wartime expenditures -- would call for this particular response of tax flexibility. It was accompanied by strong expenditure tightening.

The immediate goals sought were obtained -- the financial tension subsided, the investment pace began to be more manageable, and monetary policy could begin to ease and adjust the imbalances, as in housing, that had accompanied its tightening.

We thus come to the year 1967 and a new set of obstacles, even more challenging. The imbalances of 1966 are giving way to an economic advance that will show a more even front, as business investment moderates its prior pace and housing starts to catch up. This moderation in business investment signaled the end of the need for the suspension of the investment credit, perhaps a bit earlier than had been foreseen. The President accordingly recommended restoration of the credit, with this step thus completing the application of tax flexibility initiated last September. The differing views on the terms of the restoration underscore the belief expressed last year that only that combination of unique circumstances would call for this form of tax flexibility.

The economic radars that scanned the horizon in January forecast for the immediate months a pause in the economy, as the components of the advancing economic front regrouped and balanced their relationships. An important factor in this pause has been the downward adjustment in inventory accumulation. Other factors are the moderation in the growth in plant and equipment investment and the low level of housing activity which reflected the past period of tight money. Those radars that scanned further ahead forecast that the economic front would later gather momentum from a variety of sources -- increased Social Security expenditures, the pace of Government expenditures, resumed strength in housing, the end of the inventory adjustment, and a pick-up in consumer spending. In the absence of tax action, the Federal budget would move more strongly into deficit and fiscal policy would become highly stimulative. Instability in the form of inflationary pressures would again threaten. It would be desirable to meet that obstacle through tax policy rather than through a resumption of monetary tightening lest we become locked into a level of high interest rates.

This forecast in January thus called for over-all tax restraint, in contrast to the specialized restraint in the business sector that was needed last September. The hearings and discussions of last year on the techniques of tax flexibility, notably before the Fiscal Policy Subcommittee of the Joint Economic Committee -- hearings that had been urged by the Administration -- indicated that the most appropriate application of tax flexibility for this purpose was a surcharge

on individual and corporate income tax liabilities. The President in January recommended this course. For Budget and revenue estimating purposes a precise starting date was needed and July 1 was chosen. But tax flexibility and rational economic policy obviously do not always demand rigid adherence to dates based on prior economic forecasts. The task is to match policy as closely as possible to current forecasts as these forecasts sharpen and change -- not to rigidly match action to a previously set timetable that was itself only a forecast based on earlier and therefore less reliable data.

The economic radars still indicate that in the months ahead the predicted momentum will gather. While the radars are still not equipped to pinpoint the exact month of change, this summer is still the governing forecast. The important point, however, is to recognize that as forecasts sharpen and more clearly foretell the change, we should not be misled by looking backwards or even around us at the figures that reflect the pause we are now moving through. Instead, we must concentrate on what is forecasted for the period ahead. We must be willing to act on what that forecast implies, not because it is infallible but because it is far better than the unfounded assumption that the present condition will continue simply because it is the present. We can be willing to act on the forecast because the tax change that is being recommended -- a temporary income tax surcharge -- is an adjustment that after its adoption can be readily removed earlier than the targeted date for its termination if the economic radars then begin to forecast different and unexpected signals.

We must remember that the aim is not always to see that forecasts are borne out. Rather, it is to so alter economic conditions that forecasts of undesirable instability ahead, either of an inflationary nature or a downward trend, will not turn out that way and that the forecasted instability will instead be replaced by a more desirable economic situation. The surcharge thus rests on a forecast of too exhuberant an economy in the latter part of the year and an intention to prevent that forecast from becoming actuality. The recommendation of the surcharge was a frank statement of Government opinion and policy -- what it expects will happen without policy action and how it plans to solve the problem. If the problem starts to shape up differently, then of course a different solution will be called for -- but as of now that is not what our current knowledge tells us.

The use of tax policy is thus at present an exercise in tax flexibility -- as we attempt to keep our high level economy as close to optimum operating conditions as we can in the face of the inevitable instabilities flowing from the Vietnam hostilities. Necessarily tax flexibility means tax change, to keep the economy on a proper course. Rigidity in tax policy is an impossible course -- the policy that brought success in one year can bring great difficulties the next year. We must seek tax adjustments responsive to predicted economic conditions, and attempt to structure them so that the change is accompanied by the least strain on taxpayers and tax administration in applying and accommodating to those changes. Change is necessary because rigidity is disaster, but change should not itself cause needless instabilities.

When Vietnam hostilities end, a new set of conditions will appear and the use of tax policy will in turn have a different content. A most likely use is that of tax reduction, as the revenue structure will presumably have to adapt to lower military expenditures. The nature of the adaptation -- how much reduction, in what mix of temporary and permanent change, in what mix of rate change and structural alteration -- necessarily must await the events that condition the tax response.

Let me turn now to another goal and another use of tax policy. Whatever the ever-changing character of the economic role of tax policy, we are always involved in the raising of revenues to pay for Government expenditures as well as to fulfill the revenue raising targets that the economic role sets. Tax policy is charged with the task of raising those revenues with fairness, with the least interference in the efficient utilization of our resources, and with the lowest possible level of difficulty in compliance and administration. It is this use of tax policy with which tax reform is concerned.

The achievement of this goal of tax policy is one of constant efforts at improvement -- past decisions turn out to have been misguided or no longer sensible under changed circumstances; a new pattern of economic and social conditions forces tax thinking into new areas; new compliance techniques make certain steps feasible for the first time; perenially intractable problems may yield to new solutions; a better

understanding is gained of the effects of taxation in a particular area. The needs for improvement are endless and the response must be continuous over many areas. This use of tax policy in this decade has proceeded steadily, through a variety of measures aimed at improving the tax structure--the Revenue Acts of 1962 and 1964, the Excise Act of 1965, the Tax Adjustment Act of 1966, the Foreign Investors Tax Act of 1966, the Federal Tax Lien Act of 1966. Along with these major legislative measures have been many major administrative measures in Regulations and rulings -- consolidated returns, the international tax area, unrelated business income, for example -- and many minor legislative measures.

But the effort must remain continuous. We are all aware of the many possible areas of inquiry. We will have different sets of priorities and different approaches and different emphases -- but we are all seeking change in our tax structure rather than embalmment. The Treasury has often mentioned some of its current concerns -- industrial revenue bonds, multiple corporations, private pension plans and foundations, to name a few. It has called attention to the fact that the estate and gift taxes represent the only part of our Federal tax structure that has remained unexamined by the Congress over a long period. The recent parallel studies by the Brookings Institution on the economic side and the American Law Institute on the legal side clearly indicate that there are promising paths to improvement of these taxes.

An area of reform now before the Congress concerns the President's recommendations for revision of the income tax treatment of the elderly. The existing income tax benefits extended to the elderly cost about $2.3 billion annually in tax revenues. The Administration's proposals for revision of these tax rules would not alter this revenue cost. The proposals aim only to redirect this relief, in a uniform manner, to benefit those elderly most in need of it and at the same time to simplify the structure of the tax rules applicable to the elderly. But these proposals appear to be surrounded by a fog of confusion and misrepresentation.

Some critics portray in detail the suggested elimination of the present $600 added exemption and the retirement income credit. But they do not mention the substitution under the proposals of a simple blanket special exemption of $2,300 for

a single person and $4,000 for a married couple where both are over age 65. Other critics state that Social Security benefits will be subject to tax, and add that this is unfair because the beneficiaries will have made payment of Social Security taxes before retirement. But they do not mention that the costs of those taxes will be taken into account through the blanket exemption, which in no event would be reduced below one-third of the benefits included in income. Nor do the critics point out that about two-thirds of the elderly now subject to income tax will receive a tax reduction under the proposals -- almost all married couples below $11,600 and single persons below $5,800.

There are about 20 million persons over the age of 65. Of these, about 4 million now pay income tax or join in the filing of a return on which income tax is paid. The President's proposals will not change the tax-free status of the almost 16 million elderly who now pay no tax. Of the remaining group of elderly, about 2.8 million will have tax reductions. Thus, for the great majority of the elderly -- over 18.5 million persons, more than 94 percent of the total -- the recommendations will not change their position of being free of income tax burdens, or they will result in a tax reduction.

The tax liabilities for the remaining group of elderly will be increased and thereby brought more in line with the tax liabilities of those taxpayers under age 65 with similar amounts of income. This also has been criticized. But in criticizing the increases that are involved for the wealthier elderly, the critics do not indicate why a person with $20,000 or $50,000, or $100,000 of income, even though elderly, needs the special tax benefits that Congress granted because of the special financial problems associated with age. The financial problems of most of the elderly come down essentially -- as do all financial problems -- to a lack of income. But -- where the income levels are in these higher ranges -- there is no justification to apply a lower tax on a $20,000 or $50,000 income when received by a person over age 65 than when received by a person under that age. To keep the matter in perspective, an income of $20,000 a year is over twice the average family income in the United States. In addition, many of the needs

that a younger family faces have already been met by the family over 65 -- the house and furniture are paid for, and the like.

Editorials and similar comment critical of the taxation of Social Security benefits may well have given those now receiving those benefits the impression that their wellbeing is threatened. But the real facts are completely the other way around. Under the proposed changes annual tax reductions of approximately $220 million dollars would go to the taxpaying elderly below $10,000, and the overwhelming number of Social Security recipients are below that level.

Nor do the real facts end here. The proposed special exemption ($2,300 for a single person and $4,000 for a married couple) take fully into account the present levels of Social Security benefits. But this does not mean that furutre Social Security benefit increases will automatically be taxed to all recipients. The regular income tax exemptions and deductions, which are allowable in addition to the special exemption, will together with the special exemption shelter from income tax payment future Social Security benefit increases for all who have only this source of funds and, indeed, for most other recipients.

For example, the maximum Social Security benefit payable to a married couple under present law is about $2,500 per year. This would rise to about $2,700 under the President's Social Security proposals. But this is not even half the amount of income necessary before any income tax would be due under the proposed changes, since the couple would not owe tax until their income exceeded $5,800 a year. In other words, for a married couple living only on Social Security benefits, the maximum benefit level would have to more than double before the income tax would become a factor. If they are now receiving average Social Security benefits (about $1,500 per year), their benefits would have to more than triple before they would owe any tax. Viewed in another way, it is only the addition of non-Social Security income tax that could cause a tax to occur and here the leeway is also significant. Even if Social Security benefits were to reach $3,000, there would still be a $2,800 leeway to absorb pension or other income before the recipients became taxpayers.

In sum, for the overwhelming number of Social Security recipients, the proposal will have no effect on their Social Security benefits or will actually result in a tax reduction. This will also be true well into the future. There are 14 million Social Security recipients. About 12.6 million are now free of income tax, and would remain so. Only about 1.4 million are taxpayers now. Half of these would receive tax reductions under the proposal. The rest -- 700,000 out of 14 million recipients -- would have increases, but to do so they must have an income of over about $6,000 if single and about $12,000 if married. And for many these increases would be offset by the increases proposed in Social Security benefits.

It is therefore a pretty safe assumption -- keeping in mind the kinds of people who are prone to be concerned about anything touching their Social Security benefits -- that the letters any newspaper, any organization, or any Congressmen may be receiving from Social Security recipients who have become concerned by what they read or hear about these proposals can be answered simply and clearly: "If you are not paying an income tax today, you will still continue to be free of tax -- if you are paying a tax, you will receive a tax reduction."

To continue with our discussion of general tax reform, the President in his Economic Report has stated that he will submit a tax reform message later this year. He has delineated several useful principles to apply at this time to tax reform proposals -- they should be considered apart from significant rate changes or temporary tax increases or decreases, such as the six percent surcharge, and they should not occasion a significant net gain or loss in revenue. While the various components would thus involve revenue-raising or revenue-losing measures, over-all they would balance out with no significant net change.

We may, of course, as respects this use of tax policy, look ahead even beyond this reform message to notice that many significant policy areas will be under study, in Government and in private research. We must learn more about the

relationship of the income tax system to those persons who lie outside that system, and this involves the interrelationships between our Social Security system, our welfare system and the proposals for negative income taxes and income guarantees. The President has stated he will appoint a Commission to study much of this ground. We must also make sure that the benefits of economic growth spread to all and that all may share in them, or the affluence we seek for our people will become social injustice. We must strive to protect against any unfairnesses that may result from the necessary uses of tax flexibility, the necessary adjustments in monetary policy, and the necessary reliance on macroeconomic measures. We must not allow our tax system and its uses for economic policy to be regarded as involving only sterile counters remote from the human beings whose lives they affect. The measures to accomplish all of this will not, of course, lie entirely within the tax system. But those who work with tax policy must aid in joining tax policy with other economic and social measures to achieve these desired objectives.

I have been considering the uses of tax policy. These uses, as you can see, are many and varied, and perhaps to some may even appear too ambitious or wide-ranging in what is sought to be accomplished. But let me hasten to assure you that they are indeed modest alongside the claims that some have made for the use of tax policy.

There are those who urge tax policy as the solution for almost all of our social ills and problems. If you object to polluted air or polluted water, then a tax incentive will clean it right up. If a college eduction appears too costly to a family, then a tax credit will open the college doors. If our business firms are not training enough workers, then a tax incentive will set them to improving worker skills. If private enterprise and city officials will not eradicate our slums, then a tax incentive will remove this urban blight. If businesses won't locate in depressed areas, then a tax incentive will show them the way. If electric companies will not place their transmission lines underground, then a tax incentive will turn the soil. If urban transportation is too slow and too antiquated, then a tax incentive will make it fast and attractive. Indeed, all you need to learn what is wrong with

America is to read the tax bills in Congress -- wherever you see a tax proposal, that is where the action is.

Now, as Assistant Secretary for Tax Policy, I am not at all sure why I should object to these suggestions that the tax system can cure all our problems. For clearly I could well become an economic czar were Congress to agree to this course. I, and my small staff, could control all our new social programs and the other Departments, such as Labor, HEW and HUD, would have so little to do they could be merged into one small Department and thereby simplify Government. All this almost seems to be how the world would look to a Treasury Department official on an LSD trip.

But I do not use LSD and I have the cautious feeling our social problems can not be so simple that a tax device -- indeed the same tax device -- will solve all of them. I suspect that there are better ways to clean our rivers and skies, to eradicate our urban ills, to give a college education to all who are qualified. Those ways will require loan guarantees, credit programs, direct subsidies and other Federal expenditure programs, and our facing up squarely to the costs involved.

A major appeal of the tax device is that it hides the budgetary cost and, of course, this appeal is strong from the standpoint of the private interests affected. But this should not deter us from the rational calculations and analyses which must be made to weigh the benefits of alternatives expenditure programs. The sheer weight of the various demands being placed upon Government makes it urgent we obtain the utmost efficiency in the use of public funds, and that we fully recognize the amount of funds allocated to each demand. That efficiency and recognition cannot be obtained by hiding the costs in the intricacies of our tax system. Nor could that tax system survive the cumulative weakening of its strength and its fairness that would be involved in this massive use of tax incentives.

We must therefore be alert to the non-uses as well as the uses of tax policy. Nor is this sentry duty assigned solely to Government officials. Those who work daily with the tax system -- those lawyers and accountants and scholars

who know the strengths and the weaknesses of that system -- must also stand their watch. For it is you who counsel daily with a far wider audience of businesses and individuals than the words of Washington can reach. Those businesses and individuals have a vital stake in how our tax system is shaped. Yours, then, is a vital role in explaining the issues surrounding tax policy, in clarifying the choices. No one can ask for blanket agreement and conformity on the choices to be made. But we can hope for an understanding of the concerns that must be weighed in reaching those choices. And it is to this task that your talents can bring accomplishment.

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TREASURY DEPARTMENT
Washington

FOR RELEASE IN MORNING NEWSPAPERS
OF SATURDAY, APRIL 29, 1967

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE
ANNUAL DINNER OF THE AMERICAN SOCIETY OF INTERNATIONAL LAW
STATLER HILTON HOTEL, WASHINGTON, D.C.
FRIDAY, APRIL 28, 1967, 7:15 P.M., EST

INTERNATIONAL ECONOMIC RELATIONS AND THE RULE OF LAW

The common interest of those involved in international law and a United States Secretary of the Treasury is a rapidly developing one.

It was not always so. I daresay that the first Secretary of the Treasury -- Alexander Hamilton -- found it rarely necessary to deal in international law. The only significant occasion I recall was when his duties required him to negotiate some loan agreements with Dutch bankers to provide some needed resources for the fledgling nation.

But today it is far different. My concern with international law, and lawyers, and international legal institutions is an ever growing preoccupation.

The chief financial adviser to the President naturally shares with everyone else a desire for a greater degree of world order and the rule of law. But he has a specialized interest. The financial costs and dislocations involved in maintaining security through armed conflict present major dangers to economic stability. That is important in all nations. But it is of particular importance in the nation which, without imperial ambitions or a thirst for dominance, finds itself thrust into a position of world leadership and responsibility for security with freedom.

The U. S. Treasury Secretary is also the United States Governor of the International Bank for Reconstruction and Development, and its affiliates the newly created Asian Development Bank and the Inter-American Development Bank which concluded its Eighth Annual Meeting in Washington this week. In these capacities he is aware of the increasingly important role of legal processes and arrangements in promoting economic development through public international banking institutions which pool public resources and borrow private capital on an international scale and lend it on internationally determined standards to many public authorities or private institutions sponsored by the member country.

And in that position one is even more aware than most that public resources and initiatives cannot alone meet the challenge. Therefore, I am deeply interested in the future of private multinational companies. These engines of capitalism which channel private capital, initiative and know-how into development on an international scale should be enabled by legal processes and principles to make their contribution to a growing world economy. As the United States Governor of the International Monetary Fund, I share, with most of my colleagues, a desire to update and adapt the international legal and financial procedures in the Bretton Woods Charter to the increasing dimensions of world trade, thereby avoiding a new wave of the restrictionism and economic stagnation that marked the early Thirties.

It would not surprise you, I am sure, to know that over half of my working hours are devoted to the international financial affairs that flow from and make possible United States involvement in international affairs in a framework of law or legal arrangements.

That is why as a lawyer -- perhaps I should qualify that -- a former lawyer -- I am delighted to bring the Treasury into the proceedings of this great society.

My pleasure at being with you is only exceeded by the difficulty I encounter in saying anything profound or useful about our mutual interests.

Indeed, it is a hardy soul that ventures into this no man's land -- that dangerous, unclaimed terrain that stretches between international economics and the rule of law. One can stand securely in one or the other of these disciplines. But it is not easy to effect a happy joint venture.

Perhaps, as lawyers, we should blame the economists whose leading spokesman, Lord Keynes, described their attitude most succinctly.

He began his tribute to the legal advisers who made such a brilliant contribution to the success of the Bretton Woods Conference in 1944 by saying "I have to confess that, generally speaking, I do not like lawyers." He went on to say that "too often lawyers busy themselves to make common sense illegal. . . and are men who turn our poetry into prose, and our prose into jargon." Lord Keynes said he wanted the lawyers "to devise means by which it will be lawful for me to go on being sensible in unforeseen conditions some years hence." I think we would acknowledge now, that the lawyers at Bretton Woods had made it possible to go on being sensible in "unforeseen conditions some years hence."

But let us not lay all the blame on the economists. Too often, lawyers take a narrow technical approach to the application of international law to international economic affairs -- and in this light -- are inclined to the view that very little has been or can be accomplished. A broader view of international law in international economic affairs is needed. We must not think alone in terms of those provisions which are enforcible in a court of law -- but of all those rules and norms of conduct which govern the activities of nations -- and which they feel some compulsion to adhere to -- in their dealings with each other, and in their treatment of foreign citizens and enterprises. Viewed in this light, progress in the past twenty-odd years has been great.

Let us not forget the economic framework that has been established for international traders and investors. The American Society of International Law and its Review and Development Board have already made outstanding contributions in this field.

But, it would not be unfair to say, however, that over the years diplomats, political scientists and lawyers have mainly thought and written about and discussed the role of the rule of law in international relations in the context of the problems of peace-keeping and security. The development and improvement of law and techniques for adjudication of political disputes is necessary to the survival of life and human institutions on this planet. However, it has been demonstrated that a prerequisite to establishment of the rule of law is an economic framework within which all countries -- developed and less developed can make the most of their resources, human and economic.

This connection between peace and international economic opportunity has firm roots in our own history. Wilson's Fourteen Points included "removal so far as possible of all economic barriers to the establishment of equality of trade conditions among nations". From that dream to the reciprocal trade program developed in part as a reaction to the dangers to peace resulting from the discriminatory trade practices and bilaterilization of trade of the 1930's, to the Atlantic Charter of 1941, our country has made clear that a rational world economy is an essential to peace. While the post World War I settlement failed to establish the basis for a rational world economy, even before World War II was over, planning began on the institutions that would eliminate restrictions on the free flow of trade and payments. The goal was an open and competitive world operating in an atmosphere of comity.

From these ideals grew the Bretton Woods institutions -- the International Monetary Fund and the International Bank for Reconstruction and Development -- and the General Agreement on Tariffs and Trade. These multilateral economic organizations and others patterned after them have grown and flourished. They have helped to bring closer to reality the rule of law in international economic affairs.

The IMF Articles of Agreement represented a dramatic step forward. For the first time a code of conduct for international monetary relations was established. Perhaps most significant in this code was the creation of formal exchange stability obligations and the bringing of exchange rate changes under international jurisdiction. In addition, Fund approval must be obtained to impose restrictions on current payments and all members must avoid discriminatory currency arrangements. The framers of the IMF remembered vividly that in the 1930's predatory exchange depreciations and competitive restrictions on current transactions had reduced international trade and contributed to worldwide depression and even war. These rules of international law contained in the Articles have undoubtedly been a major factor in the unexampled prosperity the Free World has enjoyed in the last two decades.

The International Monetary Fund was also provided a pool of resources upon which countries could draw to help them live up to the IMF code of conduct by aiding them in meeting the strains of temporary imbalances. In administering this pool of resources, the Fund has evolved a body of practices under which the Fund members have a clear idea of the

policies they must follow in order to obtain access to the resources of the Fund. Thus, although not constituting, strictly speaking, international law, guidelines have been established under multilateral auspices which do constitute international standards for the conduct of economic policy.

While exchange rate policies and restrictions on current account payments were subject to international supervision, capital flows were left unregulated by the IMF Articles. The Codes of Liberalization of Capital Movements and Invisible Transactions promulgated by the Organization for Economic Cooperation and Development are aimed at the elimination of restrictions in this area. One important result of these Codes is the establishment of a forum in which countries' restrictions may be reviewed and tested in the light of their impact on the world economy.

Parenthetically, it is not surprising that the IMF Articles, having made such a profound change in public international law, have also had an impact on private international law. Specifically, the Fund Articles make exchange contracts in violation of exchange control regulations that are consistent with the IMF articles unenforcible in the territories of any member. This was a very significant change in legal thinking since in many cases foreign exchange control laws were labeled as "revenue" or "penal" laws and were unenforcible in the courts of another country.

The decision of the Supreme Court in Kolovrat v. Oregon made it clear that the United States' adherence to the Fund agreement had established a public policy which an individual State had to respect and against which it could not set up its own public policy. On the other hand, the case of Banco do Brasil demonstrates that private international law cannot advance significantly beyond the area of agreement among nations on norms of conduct in economic affairs.

The General Agreement on Tariffs and Trade has also been an indispensible element in the development of the postwar economic structure. It, too, has furthered the rule of law in international economic affairs. Under the auspices of the GATT tariffs have been reduced overall by about 45 percent. Moreover, as the IMF has provided a code of conduct in monetary affairs, the GATT has set down accepted rules of conduct in trade relations. It has regulated resort to some nontariff restrictions and has provided a forum for hearing complaints and adjudication of disputes.

In a way similar to the IMF's role in setting guidelines for internationally accepted standards for the conduct of economic policy, the International Bank for Reconstruction and Development has also added to the framework of a rational economic order. Member countries know what policies they must follow in order to obtain the assistance of the Bank and of its affiliated institutions, the International Finance Corporation and the International Development Association. For instance, countries in default of their international obligations or which are not making substantial efforts to remedy defaults, are not eligible for loans from the Bank.

Bank members are keenly aware that failure to meet international commitments will not only mean ineligibility for Bank assistance, but will deter other private or public capital inflow. Consortia of lenders under the auspices of the Bank for the purpose of implementing approved development programs have had an important demonstration effect in gaining acceptance for agreed rules of economic conduct. Thus, without establishing substantive rules of law, these institutions have created internationally agreed norms for the management of economic affairs.

These activities of the Bank have also given support to the lawyers endeavoring to settle the private aspects of countries' international obligations. Additional progress in this effort has been made in Latin America by the Inter-American Development Bank. I believe the same will be true of the Asian Development Bank, which is just beginning operations.

In one area the experience of the Bank with standards of economic conduct has taken specific form. The World Bank, under the leadership of its illustrious past president, Eugene Black, was in the forefront in working out means for the settlement of investment disputes. In the beginning, this was done on an informal, "good offices" basis. That experience led to agreement promoted by the current President, George Woods, on a Convention for the Settlement of Investment Disputes providing for the creation of a facility as an affiliate of the Bank for the mediation and conciliation of investment disputes. The Convention entered into effect on October 14, 1966, and the Center opened its doors in February of this year. Five developed countries and twenty-three less developed countries have already adhered to the Convention.

Every international lawyer should be aware of this new facility for the orderly mediation or arbitration of problems arising between investors and host governments. Like the International Monetary Fund and the World Bank, the decisions reached through the use of this facility are bound over time, in my opinion, to add to the body of law and norms of economic conduct which are so important in the development of a rational and just world economic system.

Consideration is also being given to further embodiment of economic practices into specific codes of conduct. The IBRD is now studying a multilateral insurance scheme which would provide insurance against political risks to investors in foreign countries. The OECD has had under consideration an investment code which would provide rules for the treatment of private foreign investment by host governments. It is too early to say whether insurance and investment codes can be embodied in formal agreements. Much work remains to be done. This is true particularly in the area of non-tariff barriers to trade. However, it is encouraging that these subjects are being given study.

We know from past experience that it is very difficult to elaborate agreed practices into international law rules until there has been long experience and general acceptance of this experience. This principle has been aptly put by Justice Cardozo. He said, "Life casts moulds of conduct, which will some day become fixed as laws. Law preserves the moulds, which have taken form and shape from life." It will be some time before our experience with solutions to the new problems we are now facing will be ready for codification into rules of law. It is clear that we have now assimilated many of the economic problems of the postwar world -- the dream of Bretton Woods of a world generally free of payments restrictions has largely been achieved.

Many of the new problems have been generated by our past successes and result from an increasing integration of the world economy. This integration is both a cause and a consequence of rapidly growing international trade -- now exceeding $200 billion a year.

A solution to those problems resulting from a closer integration of the world economy is patently not susceptible at the present time and in all cases to embodiment in formal codes of international conduct. Yet it is vitally important

that countries understand one another and consider the international consequences of their economic policies. It is not surprising, therefore, that institutional arrangements have evolved allowing countries to keep abreast of the economic policies followed by others and bring their influence to bear so that the development of domestic economic policy will also reflect the interests of the world economy as a whole.

For example, in Working Party Three of the OECD and through the IMF consultations with member governments, "confrontations" are regularly held in which countries must justify their economic policies and be made acutely aware of the international interests. Going beyond this, Working Party Three has recently published a report on the Balance of Payments Adjustment Process in which guidelines are suggested for the proper policies to be followed in meeting the problems of deficit or surplus.

In the international monetary area, the problems of financing deficits and surpluses also have an impact on the entire international monetary system. Arrangements have been made for a review and appraisal process of various elements in international liquidity for financing of surpluses and deficits. The purpose of this "multilateral surveillance," by Working Party Three of OECD, is to give a more comprehensive up-to-date review of major trends and afford a better basis for strengthening policy cooperation, as well as providing a forum for discussing measures appropriate for each country.

Perhaps at some time in the future experience with these procedures will lead to agreed rules or standards of international economic conduct that will nearly approach the status of international law, in the broad sense that term is being used this evening.

The Treasury, under the leadership of Assistant Secretary for Tax Policy Stanley Surrey, has been carrying on a series of negotiations for new or improved tax treaties to bring greater harmony, order and fairness to this important area. Given the rates of tax which are applied in the world of today, the failure to apportion income from international transactions among the countries involved, so that each might grab what it can, would produce tax burdens of a magnitude that would quickly bring to a halt international trade and investment. Recognizing this, countries have tended to exercise restraint in the international reach of their tax systems. The rules incorporated in tax treaties are in part a reflection of this restraint and have come about because

of the substantial uniformity of their national laws, arising from a common legal system, common notions of equity, and a common philosophical approach born of the same literature, tradition, history, or the like. The treaty rules, however, have gone beyond the national laws, since there is not complete uniformity, and have in turn produced changes in national laws. A treaty agreement may be reached on the allocation of income from a given transaction between two countries, but one of the signatories may not be empowered by its law to impose a tax on the income allocated to it. It would have given up revenue without receiving anything in return. Nations therefore tend to adopt as internal legislation the international treaty rules agreed upon. Treaty rules are thus not merely ad hoc arrangements. They must be entered into with an understanding of their implications for our relations with other countries and for our domestic policies if we are to build and maintain a rational and consistent approach to the taxation of international transactions.

Our tax treaties also make a contribution to the development of international law by creating a mechanism for the settlement of differences among the tax authorities of the signatory countries. We have not yet reached the day when disputes which cannot be settled by the authorities themselves will be turned over to some tribunal, but it may be coming. Consideration might also be given to bringing increasingly other areas of economic conduct within the sphere of international concern. Promotion of exports, some coordination of monetary policy, and antitrust policy are areas where fruitful work may be done in bringing about an international concord which may, if achieved, be embodied in rules of fair conduct -- for governments or private parties as the case may be.

There are challenges that we now face that must be solved if we are to progress in the future toward the rule of law in international economic affairs: Can adequate international reserves be provided through new collective decision-making machinery? Can payments imbalances be smoothly corrected under conditions of widespread convertibility and free movement of capital? Can non-tariff barriers to trade be reduced? Can adequate assistance be

provided to developing countries and can we have steady economic growth without inflation? The answer to each of these questions is not only an economic challenge, it is a challenge to the ability of nations to order their economic affairs in a rational way. In evolving an economic order to meet these problems, there will eventually have to be new international rules and new techniques.

Success in the Kennedy Round is of crucial importance to the maintenance of the growth of world trade. The growth of trade and payments is threatened by the possibility that there will be insufficient international reserves. It is our hope that agreement will be reached at the International Monetary Fund Annual Meeting in September 1967 on an adequate plan for the creation of reserve assets.

Finally, there is the acute problem of providing sufficient resources for the growth of the less developed countries under conditions that encourage self-help, promote the adjustment process in the international balance of payments, and still preserve broad competitive choices. The international development institutions have made a significant contribution to this development. But more must be done. They are sorely in need of additional resources. The Inter-American Development Bank, the International Development Association, the Asian Development Bank, and the African Development Bank need additional funds with to finance their activities in the coming years. All developed countries must contribute to this effort and ways and means must be found for making this contribution. That was the principal current concern of this week's meeting of the Inter-American Development Bank.

The respect of nations for the role of private enterprise in the international economic order should be one of the prime objectives of international law in the last third of this century.

Private initiative in the international area depends upon the existence of order, nondiscrimination, and due process. To the lawyers dealing with international clients, the area of interest, the problems confronted are very specific. For, in spite of all of the developments I have cited, a corporation doing business in a foreign country may still be confronted with the ofttimes difficult problem of achieving some form of fair treatment along the lines of our constitutional guarantee of due process.

The evolution and growth of the multinational corporation is of major importance in the development of the world's resources. Multinational corporations with their technological skills, research facilities, capital, patents, equipment and experience drawn from successful operations, serve a most useful economic and social function in the countries of their operations. Their growth is already a significant factor in the development of the world's economy. In money terms, from the U. S. experience we can get some idea of the contribution of these companies. In 1950, U. S. exports were about $10 billion. In 1965, exports had climbed to over $27 billion. My comparison, however, in those same years, direct investment abroad by U. S. firms totaled $12 billion in 1950 and had risen to almost $50 billion at the end of 1965. Sales by U. S. foreign manufacturing affiliates totaled over $42 billion in 1965, of which $34 billion were local sales.

Add to these indicia of goods and services provided by our foreign trade and investment a steady source of employment, social stability, tax revenues, advances in technical knowledge, and the growth of affiliated industries and services and one can understand the desire on economic and social grounds of host countries to accept the multinational corporation. Despite this we all know of the many difficulties still facing the multinational corporation in operating in a host country, including restrictions on fields of endeavor, the necessity for foreign management, expropriation without adequate compensation, compliance with local regulations and laws contrary to the law of the county of ownership, and, in some cases, strict limitations on repatriation of earnings.

There are no simple, easy solutions to the problems which a multinational corporation may face. For those of you whose clients call for legal advice on how to overcome these problems, I am sure there are many frustrations. You recognize and understand, of course, the necessity for a multinational

corporation to adjust to the realities of the national policies and laws of the host country; to establish itself as a good citizen, paying just taxes, having an enlightened policy for the benefit of employees within the social context of the host country. You must be prepared to demonstrate to the host country the benefits it will derive from the presence of the corporation.

The burden of the lawyer is indeed a difficult one in these circumstances. He must be prepared to negotiate in advance the necessary understandings and safeguards for his client's establishment and operation; if they do not already exist in the law. The difficulty is, of course, that often there are no standards upon which such understandings can be made or judged. It is in this area perhaps that the United States Government has a responsibility to increase its efforts to convince nations of the world to reach agreed-upon codes for the treatment of foreign investment.

On the other hand, it is the responsibility of the host country to recognize and understand that it, too, must adhere to rules of conduct which would allow the successful operation within its borders of a multinational corporation. Indeed, without these rules of conduct, the economic progress of a less developed country may be stifled because an investor is simply not going to be attracted to an area where he is not wanted or where there is a possibility of his becoming not wanted.

We cannot expect to achieve uniformity in the treatment of multinational corporations throughout the world. Many countries are at an early stage of their economic development by comparison with the United States and, for example, the countries of Europe. To be realistic, we have to recognize that, along with their aspirations for rapid development, some of them are going through a period of excessive nationalism which may inhibit the attainment of the essentials of due process as we have come to understand them. In part, therefore, the achievement of due process will be dependent upon the acceptance of multinational corporations as being desirable and upon our success in alleviating their fears of undue foreign influence over the development of their economies in the context of their social and political institutions which may differ from ours.

We cannot expect solutions to come overnight. This is a long-range goal on which both government and private efforts must

continue to be exerted. We have seen some advance. As I mentioned, the Settlement of Investment Disputes Convention is a step in the direction of due process. The approval of the membership of the U. S. in that Convention was helped by the support of organizations such as the Bar Association of New York, the Philadelphia Bar Association, the National Association of Manufacturers, and the National Foreign Trade Council.

Additional steps by way of international conventions are only one way to provide for the multinational corporation the due process which would allow most efficient economic development. The interest and help of organizations of lawyers and business are vital to help bring such conventions and agreements to fruition. The great body of international law which governs the economic dealings among nations has already evidenced a connection with private transactions. It is my conviction that the time is opportune to work on adding to the solid structure of international economic order so that our cherished belief in due process can be applied to private international transactions.

In closing, may I express the hope, tinged by a residue of professional pride, that, in the future, international economic affairs may not become the exclusive preserve of economists and diplomats -- but that lawyers may increasingly bring to this field the beneficient balance that can come only with the rule of law.

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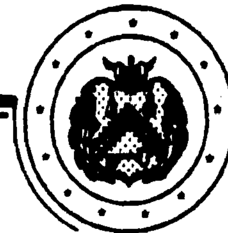
TREASURY DEPARTMENT



WASHINGTON, D.C.

RELEASE 6:30 P.M.,
ay, May 1, 1967.

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 February 2, 1967, and other series to be dated May 4, 1967, which were offered on April 26, 1967, were ed at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, hereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day s. The details of the two series are as follows:

E OF ACCEPTED ETITIVE BIDS	91-day Treasury bills maturing August 3, 1967		182-day Treasury bills maturing November 2, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.060	3.719%	98.038 a/	3.881%
Low	99.043	3.786%	98.016	3.924%
Average	99.047	3.770% 1/	98.025	3.907% 1/

a/ Excepting 2 tenders totaling $475,000
98% of the amount of 91-day bills bid for at the low price was accepted
3% of the amount of 182-day bills bid for at the low price was accepted

L TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

strict	Applied For	Accepted	Applied For	Accepted
ston	$ 19,679,000	$ 9,629,000	$ 34,275,000	$ 4,275,000
r York	1,608,248,000	923,041,000	1,442,096,000	834,186,000
iladelphia	26,943,000	14,943,000	17,355,000	4,355,000
eveland	23,459,000	23,459,000	17,535,000	7,835,000
hmond	8,464,000	8,464,000	3,253,000	3,253,000
lanta	41,213,000	33,181,000	18,161,000	9,379,000
icago	174,493,000	123,393,000	149,133,000	78,253,000
Louis	41,891,000	32,285,000	14,235,000	8,744,000
neapolis	15,746,000	14,746,000	8,633,000	7,248,000
nsas City	22,009,000	21,957,000	8,038,000	8,038,000
las	23,067,000	14,047,000	17,921,000	7,921,000
Francisco	97,731,000	81,541,000	81,465,000	26,615,000
TOTALS	$2,102,943,000	$1,300,686,000 b/	$1,812,100,000	$1,000,102,000 c/

ncludes $234,306,000 noncompetitive tenders accepted at the average price of 99.047
ncludes $90,107,000 noncompetitive tenders accepted at the average price of 98.025
hese rates are on a bank discount basis. The equivalent coupon issue yields are .87% for the 91-day bills, and 4.05% for the 182-day bills.

TREASURY DEPARTMENT
Washington

STATEMENT OF HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
ON H. R. 7476
HOUSE BANKING AND CURRENCY COMMITTEE
MAY 1, 1967

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today in support of H. R. 7476, a bill which would provide a basis for dealing with our silver stocks in an orderly way. To lay a foundation for understanding the need for this legislation I should like, with the Committee's indulgence, to review briefly the history of our silver policy during the last few decades.

Under various acts and proclamations relating to newly mined domestic silver, and the Silver Purchase Act of 1934, we purchased, from 1934 to 1959, 3 billion ounces of silver at an average price of 58.7 cents per ounce. Until the second World War, world production of silver exceeded consumption. Thereafter, the trend reversed; however, it was not until 1959 that the combination of the needs of industry and others for silver and the Treasury's increased use of it for coinage began appreciably to exceed world production. The gap widened steadily, but for a time the Treasury was able to fill it by the sale in the market of silver from its non-monetized stockpile. The increased demand for silver for industrial and other use was in that way satisfied temporarily. By November of 1961, however, it became clear that the unrestricted sale from our non-monetized stockpile could not continue and on November 28 of that year President Kennedy, upon the Treasury's recommendation, directed that

the sale of this silver be discontinued and that our coinage needs be met by using silver released through the retirement of unfit silver certificates of the $5 and $10 denominations.

As you know, the Treasury's monetary use of silver was not limited to coinage. By law a portion of the silver purchased under the Purchase Acts was required to be used to back silver certificates, most of them of the $1 denomination, the only currency of that denomination then being issued. Also, to the extent that the public's needs for $1 bills did not require the use of all of our silver excess to our coinage needs, we had issued some silver certificates of the $5 and $10 denominations. By 1961, it had become evident, however, that our existing stocks of silver could not for long accomplish both purposes, that is, provide silver for coinage and backing for silver certificates. Consequently, the issuance of $5 and $10 silver certificates was stopped. This reduced the drain on silver but not enough. Therefore, the Treasury proposed and the Congress enacted the Act of June 4, 1963, Public Law 88-36, which accomplished two things. First, it authorized the Secretary, at his option, to redeem silver certificates with silver bullion instead of silver dollars. Our supply of silver dollars, which had not been minted since 1935, had dropped from more than 500 million at that time to 81 million by 1963. Second, the Act authorized the issuance of $1 Federal Reserve notes to be substituted for $1 silver certificates. In November of that year they were in production. From November of 1963 until October

of 1964 both $1 silver certificates and $1 Federal Reserve notes were issued. By September of 1964 we were producing enough $1 Federal Reserve notes to satisfy the needs of the public and in early October the issuance of silver certificates was stopped altogether.

In the meantime, because of the suspension of the unrestricted sale of our silver to the market, the market price of silver began to rise. From a price of $0.91 in 1961, it gradually rose until in 1963 it reached the price of $1.29+ per ounce, the monetary value of silver. We could not allow the market price to rise much above its monetary value because this would threaten the continued circulation of our silver coinage. It would become profitable to melt subsidiary coins for their silver content at about $1.40 an ounce. Therefore, beginning on July 23, 1963, the Treasury offered to the public silver bullion at its monetary value in exchange for silver certificates. It was not necessary to require, however, that silver certificates be presented physically in exchange for bullion. A simple procedure made it possible to obtain silver without doing so. Substantial amounts of unfit silver certificates were being retired each day, and an arrangement was made whereby persons wishing to acquire bullion would request the New York or San Francisco Federal Reserve Banks to purchase unfit silver certificates which were in the process of retirement and exchange them for bullion. This worked satisfactorily and as bullion was released an equivalent amount in unfit silver certificates was retired.

Until recently, the rate of retirement of unfit certificates exceeded bullion losses through this exchange method, and, since no new silver certificates were being issued, we were able to accumulate a supply of unencumbered silver in excess of 300 million ounces. During the last year and a half, however, that trend was reversed. Bullion losses began to exceed certificate retirements, and the sale of free silver at its monetary value, as authorized by the Coinage Act of 1965, coupled with the use of silver for coinage, has reduced our uncommitted silver to about 90 million ounces.

After silver ceased to be used for the purpose of backing new issuances of silver certificates, it became necessary to find a substitute for silver for coins. After an exhaustive study, we recommended and the Congress enacted the Coinage Act of 1965, which authorized the substitution of nickel and copper for silver in our dimes and quarters and reduced to 40% the silver content of the half dollar. This Committee and the Congress as a whole quickly recognized the urgency of this problem and acted responsibly and with alacrity.

We have now reached the point at which further action is necessary. At the present time, we have total stocks of silver of about 520 million ounces. Of this amount, almost 430 million ounces are required by law to be held as reserves for $555 million of silver certificates outstanding. This leaves only about 90 million ounces of so-called "free silver" available.

We are asking the Congress, therefore, to authorize the Secretary of the Treasury to write off an amount of outstanding silver certificates which he determines have been lost or destroyed, or are held in collections, and will never be presented for redemption. On the basis of past experience we know that not all of the outstanding silver certificates will be returned for redemption. Many of them have been lost or destroyed and many more can be expected to be held by collectors. Experience would indicate that at least $150 million could be written off immediately, thus freeing about 116 million ounces of silver. After further experience with the trend of retirements of silver certificates we might be able to write off an additional amount.

We are also asking the Congress to provide that holders of silver certificates would have one year from the date of the legislation to redeem their silver certificates for silver if they desire to do so. After one year silver certificates would continue to be legal tender on a par with Federal Reserve notes, but they could no longer be redeemed in silver. This is a perfectly reasonable provision which recognizes the fact that we cannot permit one form of currency to acquire a speculative value in excess of that of other forms, but at the same time provides an ample period during which those who presently hold silver certificates may acquire silver if they wish.

Since the passage of the Coinage Act of 1965, our mints have accomplished an amazing feat of producing in the short space of 21 months the unprecedented amount of 7.8 billion of the new subsidiary coins. At the

present time, we are approaching the limits of capacity of our facilities for storage of new coins available to be issued if needed. It is our belief that we probably have in circulation, in inventory, and in production, a sufficient amount of the new coins so that if the existing silver coins in circulation should begin to disappear, we would have enough coins to meet the country's needs. However, it is difficult to estimate the total needs of the country for coinage, and we feel that we can take no chances in this regard. Accordingly, we are continuing heavy production of the new coins at all of our mints to insure an amount of the new coins in circulation and in inventory which, according to every estimate, will be more than sufficient to meet any potential needs of the country for coinage.

The Joint Commission On The Coinage established under the Coinage Act of 1965, to which I will refer more later, will, of course, want to satisfy itself that we have and are making enough coins to meet the needs of the country. During this interim period, particularly between now and the end of this year, we must have available sufficient amounts of free silver to sell to industry at the monetary value of $1.29+ per ounce in order to maintain the market price within a narrow margin of this figure. Were we to stop selling silver, the market price could be expected to rise rapidly. Once it exceeded the price of $1.40 per ounce, the silver coins in circulation would have greater value as silver than as coins and would undoubtedly be withdrawn from circulation in substantial amounts.

The question may be asked as to whether the Administration, by asking for this legislation, is not invading the province of the Coinage Commission. In our opinion, this legislation is necessary to preserve the options which the Coinage Act of 1965 placed in the Coinage Commission. The Coinage Act instructed the Commission to review and make recommendations upon such matters as the needs of the economy for coins, the standards for the coinage, technological developments and the availability of various metals, renewed minting of the silver dollar, other considerations relevant to the maintenance of an adequate and stable coinage system, and "the time when and circumstances under which the United States should cease to maintain the price of silver." Enactment of H. R. 7476 will make it possible for the Coinage Commission to consider these and related questions in an objective way without being placed under the pressure of dealing with an emergency situation.

The President will shortly announce his designation of members to serve on the Coinage Commission. The Congress has previously designated its representatives to serve on the Commission. It is planned that the Commission will be convened and commence its studies promptly. Early next year its findings and recommendations should be available to the Executive branch and to the Congress, and may serve as the basis for any ultimate legislation which may be needed with respect to silver and our coinage. In the meantime, the bill before you will make it possible

to maintain the status quo. I strongly urge you to report favorably on this bill and to recommend its enactment as being in the public interest.

(In millions of fine troy ounces)

Calendar Year	Silver used in coinage	Bullion exchanged for silver certificates	Silver dollars paid out	Other[1] causes of change	Total change in silver stocks	Silver[2] stock at end of period	Memorandum: Bullion equivalent of silver certificates[3] at end of period		
							In circulation	Held by F.R. Banks and agents	Total
1958	-38.2		-12.7	+142.8	+91.9	2,106.2	1,683.5	188.3	1,871.8
1959	-41.4		-15.7	+10.8	-46.3	2,059.9	1,651.1	209.3	1,860.4
1960	-46.0		-16.2	-5.5	-67.7	1,992.2	1,632.0	215.9	1,847.9
1961	-55.9		-23.8	-49.8	-129.5	1,862.7	1,616.3	191.2	1,807.5
1962	-77.4		-27.4	+10.4	-94.4	1,768.3	1,536.0	177.5	1,713.5
1963	-111.5	-19.0	-51.5	-2.0	-184.0	1,584.3	1,440.4	105.4	1,545.8
1964	-203.0	-141.4	-19.8	-2.1	-366.3	1,218.0	952.3	82.1	1,034.4
1965	-320.3	-77.4	--	-16.7	-414.4	803.6	503.4	24.7	528.1
1966: Jan.	-14.9	-3.3	--	-.9	-19.1	784.5	486.4	29.4	515.8
Feb.	-8.2	-9.5	--	-1.5	-19.2	765.3	478.3	26.0	504.3
March	-5.7	-11.1	--	-.1	-16.9	748.4	471.0	20.3	491.3
April	-3.7	-12.6	--	-3.8	-20.1	728.3	461.3	19.7	481.0
May	-1.4	-16.4	--	-2.3	-20.1	708.2	456.4	13.0	469.4
June	-2.5	-15.1	--	-1.2	-18.8	689.4	449.8	13.4	463.2
July	-1.3	-12.4	--	-.5	-14.2	675.2	444.8	13.4	458.2
August	-2.7	-18.0	--	-2.2	-22.9	652.3	440.4	12.3	452.7
Sept.	-3.4	-17.0	--	-.8	-21.2	631.1	437.8	10.2	448.0
Oct.	-4.2	-9.1	--	+.2	-13.1	618.0	436.3	7.2	443.5
Nov.	-2.3	-11.1	--	-.8	-14.2	603.8	433.9	5.9	439.8
Dec.	-3.4	-4.9	--	-1.3	-9.6	594.2	431.8	6.8	438.6
1966	-53.9	-140.6	--	-14.9	-209.4	594.2	431.8	6.8	438.6
1967: Jan.	-3.9	-20.0	--	-2.3	-26.2	568.0	427.9	7.9	435.8
Feb.	-4.5	-10.4	--	-3.0	-17.9	550.1	426.5	6.8	433.3
Mar.	p/ -6.0	p/ -13.0	--	p/ +.6	-18.4	531.7			

1/ Includes purchases, lend-lease returns, net sales and transfers to Government agencies, sales to industry during 1959-1961, variation in the amount of subsidiary coin and bullion held in the Treasurer's General Account, and a residual discrepancy arising from the fact that coinage and bullion exchanges are shown here on a Mint accounting basis while the total change in silver stocks is shown on the more widely available _Treasury Daily Statement_ basis. 2/ As shown in the _Treasury Daily Statement_. The total includes approximately 64.8 million ounces held by certain agencies of the Federal Government. 3/ Issued after June 30, 1929. p/ Preliminary.

Source: _Treasury Daily Statements_, _Circulation Statements_ and unpublished material.

TABLE 1.--Estimated Free World Silver Consumption and Production, 1949-66

(In millions of fine troy ounces)

Calendar year	Industry and the arts (1)	Coinage: U.S.A.	Coinage: Coinage foreign (2)	Coinage: Total coinage	Total consumption (3)	New production (4)	Indicated deficit (-) (5)	Deficit excluding all coinage demand (-) (6)
1949-53 average...	153.1	36.5	48.2	84.7	237.8	173.9	-63.9	20.8
1953-57 average...	190.1	37.5	36.0	73.5	263.6	191.0	-72.6	.9
1958..............	190.5	38.2	41.3	79.5	270.0	205.8	-64.2	15.3
1959..............	212.9	41.4	45.0	86.4	299.3	188.4	-110.9	-24.5
1960..............	224.6	46.0	57.9	103.9	328.5	206.9	-121.6	-17.7
1961 (rev.).......	239.5	55.9	81.2	137.1	376.6	203.2	-173.4	-36.3
1962 (rev.).......	258.5	77.4	50.2	127.6	386.1	209.0	-177.1	-49.5
1963 (rev.).......	260.7	111.5	54.9	166.4	427.1	214.6	-212.5	-46.1
1964 (rev.).......	304.2	203.0	64.1	267.1	571.3	210.7	-360.6	-93.5
1965..............	346.6	320.3	55.3	375.6	722.2	215.3	-506.9	-131.3
1966..............	356.5	53.9	53.8	107.7	464.2	231.0	-233.2	-125.5

Source: Columns (1) and (2) are from Handy and Harman, Annual Reviews. Column (4) is derived from the world totals published in the Annual Reports of the Director of the Mint and compiled by the Bureau of Mines, except for 1966 which is from Handy & Harman's 1966 Annual Review. Production for the following countries has been subtracted from the world totals: Czechoslovakia, East Germany, Hungary, Rumania, Poland, U.S.S.R., China, and North Korea.

Silver Certifica Small Size
Issued, Redeemed, and Outstanding

Calendar Year	Issued		Redeemed		Outstanding End of Period	
	Equivalent of ounces @ 1.29+	Amount	Equivalent of ounces @ 1.29+	Amount	Equivalent of ounces @ 1.29+	Amount
1961	970,360,876	$1,254,608,000	988,842,671	$1,278,503,654	1,817,424,234	$2,349,801,028
1962	891,018,563	1,152,024,000	987,827,293	1,277,190,842	1,720,615,505	2,224,634,186
1963	741,868,876	959,184,000	907,975,733	1,173,948,421	1,554,508,648	2,009,869,765
*1964	345,089,250	446,176,000	857,322,949	1,108,457,953	1,042,274,949	1,347,587,812
1965			510,502,262	660,043,328	531,772,687	687,544,484
1966						
January			12,003,637	15,519,854	519,769,050	672,024,630
February			12,179,939	15,747,800	507,589,111	656,276,830
March			14,356,287	18,561,664	493,232,824	637,715,166
April			10,465,266	13,530,849	482,767,558	624,184,317
May			10,350,312	13,382,222	472,417,246	610,802,095
June			6,758,200	8,737,875	465,659,046	602,064,220
July			5,462,484	7,062,606	460,196,561	595,001,614
August			6,109,509	7,899,163	454,087,052	587,102,451
September			4,633,166	5,990,356	449,453,886	581,112,095
October			4,667,987	6,035,377	444,785,899	575,076,718
November			2,711,123	3,505,290	442,074,777	571,571,428
December			2,112,320	2,731,080	439,962,457	568,840,348
Total - 1966			91,810,230	118,704,136	439,962,457	568,840,348
1967						
January			2,707,306	3,500,355	437,255,151	565,339,993
February			3,164,357	4,091,290	434,090,794	561,248,703
March			2,239,816	2,895,924	431,850,978	558,352,779

*Issue of silver certificates discontinued October 1964.

Source: Currency ledgers in U. S. Treasurer's Office.

Table 4

Balance of Unobligated Silver

	Fine troy ounces
1963	
Dec. 31	9,316,071
1964	
Jan. 31	21,782,451
Feb. 28	34,858,034
March 31	11,955,943
April 30	41,838,514
May 28	36,622,914
June 30	30,372,231
July 31	47,389,683
Aug. 31	41,193,304
Sept. 30	41,841,469
Oct. 31	72,126,924
Nov. 30	111,076,708
Dec. 31	150,279,688
1965	
Jan. 29	173,453,081
Feb. 28	207,456,180
March 31	237,534,851
April 30	272,833,253
May 28	272,630,144
June 30	295,181,641
July 31	301,790,451
Aug. 31	325,158,600
Sept. 30	310,038,501
Oct. 29	298,109,717
Nov. 30	282,281,615
Dec. 31	271,845,717

	Fine troy ounces
1966	
Jan. 31	264,763,644
Feb. 28	257,693,663
March 31	255,174,576
April 29	245,505,248
May 31	235,815,939
June 30	223,763,203
July 29	215,004,080
Aug. 31	198,172,851
Sept. 30	181,687,234
Oct. 31	173,185,839
Nov. 30	161,707,676
Dec. 30	154,283,359
1967	
Jan. 31	130,757,145
Feb. 28	116,043,701
March 31	99,851,803

Source: Daily Treasury Statements

United States currency written off pursuant to
Old Series Currency Adjustment Act, approved June 30, 1961
Public Law 87-66

Kind of Currency	Cumulative total issued	Written Off: October 1961	Written Off: August 1962	Written Off: November 1964	Written Off: June 1966	Written Off: Total	Outstanding Dec. 31, 1966
Treasury Notes of 1890	$447,435,000	$1,000,000		$100,000	$31,000	$1,131,000	$10,534
Gold Certificates issued prior to July 1, 1929	13,447,187,300		$9,000,000	6,000,000	1,600,000	16,600,000	745,429
Gold Certificates issued July 1, 1929 and subsequent thereto, except Series 1934	2,591,580,000				7,350,000	7,350,000	3,496,690
Silver Certificates issued prior to July 1, 1929	12,374,855,800		15,000,000	14,500,000	280,000	29,780,000	140,814
National Bank Notes issued prior to July 1, 1929	14,081,209,155		15,000,000	13,500,000	420,000	28,920,000	210,405
Federal Reserve Bank Notes issued prior to July 1, 1929	761,944,000		1,000,000	1,000,000	63,000	2,063,000	30,442
Federal Reserve Notes issued prior to July 1, 1929	19,971,560,000		18,000,000	14,000,000	2,450,000	34,450,000	1,193,087
United States Notes issued prior to July 1, 1929	8,903,427,808			24,000,000	142,000	24,142,000	72,411
Total	72,579,1[illegible]	1,000,000	58,000,000	73,100,000	12,336,000	144,436,000	5,899,812

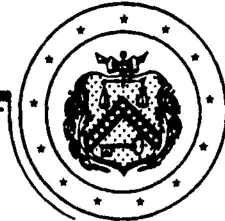
Source: Currency Ledgers U. S. Treasurer's Office.

United States Silver consumption and sources of supply
Calendar Years of 1949 through 1966
(In millions of fine troy ounces)

	Average, 1949 - 58	1959	1960	1961	1962	1963	1964 (Rev.)	1965	1966
Industrial consumption	97.4	101.0	102.0	105.5	110.4	110.0	120.5	137.0	150.0
Less: New production	38.1	23.0	36.8	34.9	36.3	35.0	37.0	39.0	42.0
Difference	59.3	78.0	65.2	70.6	74.1	75.0	83.5	98.0	108.0
Add: U. S. coinage	36.6	41.4	46.0	55.9	77.4	111.5	203.0	320.3	53.9
Equals: Indicated deficit	95.9	119.4	111.2	126.5	151.5	186.5	286.5	418.3	161.9
Accounted for by -									
Net commercial imports	-80.9	-55.3	-29.5	-9.1	-63.3	-32.5	+55.7	-12.2	+22.3
Lend-lease, returns (-)	-30.5	-45.0	-15.7	-10.4	-8.3	....	....	....	....
Change in Treasury stocks	+15.4	-46.3	-67.7	-129.5	-94.4	-184.0	-366.3	-414.4	-209.4
Total accounted for	-96.0	-146.6	-112.9	-149.0	-166.0	-216.5	-310.6	-426.6	-187.1
Discrepancy (minus values imply net additions to domestic inventory)	-.1	-27.2	-1.7	-22.5	-14.5	-30.0	-24.1	-8.3	-25.2

Source: Consumption, coinage, and production data from Annual Reports of the Director of the Mint, except for 1966 when consumption and production are from Handy & Harman's 1966 Annual Review. Net commercial imports from Handy & Harman's Annual Reviews and Minerals Yearbooks. Lend-lease returns from Annual Reports of the Director of the Mint. Change in Treasury silver stocks from Treasury Daily Statements.

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 2, 1967

FOR IMMEDIATE RELEASE

TREASURY DECISION ON ALUMINUM SHEATHED COAXIAL CABLE
UNDER THE ANTIDUMPING ACT

The Treasury Department announced today that it is issuing a notice of intent to close its investigation with respect to the possible dumping of aluminum sheathed coaxial cable, also known as insulated electrical conductor cable, imported from Canada, manufactured by Canada Wire & Cable Company, Ltd., Toronto, Canada.

The notice, which will be published in an early issue of the Federal Register, announces that the investigation is being closed with a tentative determination that this merchandise is not being, nor likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended (19 U.S.C.160 *et seq.*),

The merchandise under consideration is commonly used to conduct television signals from antennas to receivers.

Appraisement of the above-described merchandise from Canada, manufactured by Canada Wire & Cable Company, Ltd., Toronto, Canada, has not been withheld.

Imports of the involved merchandise received during the period April 1, 1966, through January 31, 1967, were valued at approximately $300,000.

TREASURY DEPARTMENT
Washington

FOR USE IN AFTERNOON NEWSPAPERS
OF TUESDAY, MAY 2, 1967

REMARKS BY THE HONORABLE WINTHROP KNOWLTON
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
AT THE
LUNCHEON MEETING OF THE WORLD AFFAIRS COUNCIL
SHERATON-PLAZA HOTEL, BOSTON, MASSACHUSETTS
TUESDAY, MAY 2, 1967, 12 NOON, EDT

THE UNITED STATES BALANCE OF PAYMENTS

PROBLEM: A LONG-RANGE STRATEGY

I. Introduction

I want to discuss with you today a problem that is statistical; sexless; senseless, in the eyes of some; and remote in the minds of most. In other words, the United States balance of payments.

Despite these distasteful characteristics, the subject has recently been embraced with considerable conversational fervor; the light shed upon it appears to vary in inverse proportion to the conversational heat.

You are all no doubt familiar with the problem in a general way -- and many of you are familiar with its intricacies. For every year but one of the last seventeen, the United States has paid out more dollars to foreigners than it has taken in. Some of these dollars have moved into the hands of foreign monetary authorities who can convert them into gold if they so desire. In 1956 the amount of liquid dollars held by foreign countries totaled $14.6 billion, and our gold stock totaled $22.1 billion. By the end of 1966 foreign liquid dollar holdings had grown to $27.9 billion ($13.7 billion in official hands), and our gold stock had dropped to $13.2 billion.

As the problem persists, individual sectors of our society tend increasingly to blame other sectors for the deficit. The prescription of some (outside the Administration) is to have us bring back our troops from Western Europe or drastically to reduce our foreign economic assistance programs. Some (not in the financial business) would reduce or eliminate various types of private capital outflows. Others (presumably not members of the jet-set) select the American tourist, conveniently pictured as sipping champagne and ogling bare-bosomed girls in a Paris night club, as the villain. And still others (usually those doing poorly in trade) would have us erect trade barriers. Each group views its <u>own</u> contribution to the deficit as morally sacrosanct and economically viable in the long run -- even if costing us a few dollars in the short run.

As if this chorus were not sufficiently diverting for the policy makers, there is a simultaneous dialogue in progress over whether the steady increase in U. S. liquid liabilities and the steady decline in reserve assets is really a problem at all. Here our advice ranges from that of distinguished professors who view the process as one of normal banking intermediation and exhort us "not to do something but just stand there" to the disciplinary exhortations of foreign central bankers, who pursue cure of the deficit with the religious zeal of Captain Ahab in pursuit of the White Whale.

We are confronted, on the one hand, by those who would have us break the link to gold (the only question being whether to do it now, with $13 billion left, or to let it all drain out first) and, on the other, by those who would apply a good dose of old-fashioned economic discipline, stagnate the economy, and, presto, bring ourselves into equilibrium. Somewhere in between are advocates of a "dollar bloc."

None of these groups -- in my view -- lives in the real world as it exists today, or as we want it to exist in the future.

II. Basic Assumptions

Today, I want to discuss United States balance of payments problem -- and our strategy -- in what I hope is a more frontal and pragmatic way. Time does not permit me to discuss the closely-related problem of international liquidity and the negotiations in progress for the reform of the international monetary system.

With respect to the United States balance of payments per se, I will assume that:

-- It is a problem.

-- The problem must be solved.

-- It can only be solved through effective, long-range measures.

-- It need not be solved by restrictive measures and can, as a practical matter, be solved largely by a combination of increasing our private balance of payments receipts and exercising restraint over our Government outlays.

-- It requires an organized approach in which the talents and resources of the Government and private industry are more effectively coordinated.

-- And, finally, it cannot be solved without positive action by other countries.

III The Short-Term Strategy

I will comment on the short-run picture only in passing by saying that shorter term measures include:

-- The Interest Equalization Tax, which we are attempting to extend and strengthen;

-- the Voluntary Federal Reserve Program to restrain capital outflows from banks and other financial institutions;

-- the Voluntary Commerce Program designed to moderate direct investment outflows.

Like the shots of cortisone pumped into Sandy Koufax's left elbow, these measures have enabled us to produce a respectable balance of payments performance during a difficult -- and presumably temporary -- period in which Vietnam costs have had an important adverse impact. They have enabled us to reduce our liquidity deficit in the last two years to $1.4 billion, on average, compared to $2.8 billion, on average, in the preceding five years; they helped reduce our official settlement deficit to $0.5 billion, on average, in the last two years, compared to $2.2 billion, on average, in the preceding five years.

IV. The Long-Range Strategy

A. Goal

The United States' long-range balance of payments objective -- stated most simply -- is to reach and sustain the degree of equilibrium necessary to preserve confidence in the stability of the dollar as a transactions and reserve currency. (I use the word preserve advisedly. Confidence in the dollar exists today. The fact that 94 percent of our gold losses to foreign central banks in the last three years are attributable to purchases by one central bank suggests these drains relate to factors other than lack of confidence in our currency.)

B. Structure

We must achieve this objective in the right way. I suggest that the most rational and desirable profile for balance of payments equilibrium would be one in which:

-- The United States would meet its fair share of international commitments on behalf of mutual security in the Free World and economic development in the poorer nations of the Free World.

-- The United States would export private capital. We have the most efficient capital market in the world; to deprive a world that needs capital of access to this economic resource would, over the long run, constitute an act of economic perversity.

-- To cover these Government outflows and private capital ouflows, the United States would increase its balance of payments receipts from a variety of sources, of which the most important are exports of goods and services, including travel; direct investment income, including royalties; and foreign portfolio investment.

C. Implementation

Let me now suggest specific ways in which we can increase the receipts and limit the payments in question. As you will see, achievement of the desired balance of payments profile will require new actions, better planning, and a greater sense of urgency on the part of many people. It also requires, in my opinion, far greater self-confidence in ultimate success than many analysts in Government, in business, and in the academic community have lately professed.

1. Increasing Our Trade Surplus

The time has come for us to improve our trade surplus by launching a powerful long-range export drive. Price and cost stability are essential ingredients of success in this endeavor. After out-performing our major competitors with respect to costs and prices in the period 1960-65, we did no better than hold our own in 1966. If we are to increase our market share in the future, as we must, we must again out-perform our major competitors in this important respect.

With respect to export promotion, the Commerce Department has already greatly intensified its efforts.

-- U. S. Trade Missions, begun in 1954 largely as goodwill tours, have been entirely recast as vehicles for hard-selling of American products, services, and investments abroad.

-- Attendance at Commercial Trade Fairs has climbed from 1.6 million persons in fiscal 1963 to an estimated 5 million in fiscal 1967 to date. The number of U.S. firms participating in these fairs has jumped from 147 in 1963 to 522 thus far in 1967 and may well exceed 1,000 by the end of the year.

-- Commerce is now storing in computers vast new quantities of information on the international trading interests of 23,000 U.S. corporations. Of these, 10,000 are not now exporting but have indicated an interest in doing so. Commerce helps these novice exporters by suggesting a variety of established channels for distributing their products overseas.

The recent report of the National Export Expansion Council (the so-called Kimberly Report) struck just the right note, in my view, when it stated:

"An export expansion program, projected for ten years, should be planned to analyze the total potential for American exports, market-by-market, based upon three kinds of growth: (1) a normal growth based on an expanding world economy; (2) a penetration growth based on taking business away from foreign countries which are competitors; and (3) the introduction of new products and services which are presently unavailable in world markets.

"There should be an expansion of electronic data processing involving market information, trade opportunities, identification of prospective exporters, and the compilation of export data to permit tabulation of results."

With respect to export financing, we have made progress in the last year in streamlining the operations of the Export-Import Bank. It has simplified its procedures. It has a new rediscount facility. New loan authorizations by the Bank are up 70 percent to an annual rate of $3.7 billion in fiscal year 1967. Additional measures to improve the quality and quantity of support the United States can give exporters in the field of finance are under active consideration by the Administration and the Congress.

In the tax field, we have in the last year streamlined regulations relating to exports. The Government has under continuing review the relationship between tax systems here and abroad; if differences exist or should materialize that would put our exporters at an unfair disadvantage, we intend to take appropriate measures to correct the situation.

The United States is extraordinarily competitive at the two extremes of the export spectrum -- agriculture and advanced technology. The world food outlook is such that we can be optimistic about the demand for our agricultural production and our ability to supply greater quantities of food to help meet it. In advanced technology, our computer industry -- to cite one example -- has in the last fifteen years reduced the cost of making 100,000 calculations from $1.38 to 3-1/2 cents -- the kind of price reduction that does not show up in official statistics measuring national competitiveness. The nature of modern technology is such, furthermore, that it quickly "attaches itself" to other, more "humdrum" manufactured products (the machine tool is now often "computer-controlled") so that our technological lead -- if maintained -- should manifest itself across a growing range of export products.

Thus, given an economic policy in which cost and price stability are emphasized, given adequate support by the Government in the fields of promotion, finance, and taxation, and given adequate interest by exporters themselves, we ought to increase our trade surplus substantially in coming years. We should certainly have that as a major national policy objective.

A United States trade surplus $3-$4 billion higher than the $3.7 billion of 1966 is not going to create havoc domestically in an economy with a gross national product of $760 billion or in an expanding international trading world in which the exports of all countries currently exceed $200 billion. We have had a trade surplus of this magnitude before, in 1964. A return to such a level -- or new high ground -- is essential to a healthy solution of our payments problems.

2. Increasing Our Travel Receipts

As one Washington economist likes to point out, a travel gap is really no different than a banana gap, or a steel gap, or a widget gap. The kinds of institutions and measures necessary to stabilize or narrow the travel gap -- $1.8 billion in 1966 -- are, in fact, similar to those necessary to increase our merchandise trade surplus.

Last year, the U. S. Travel Service operated with a minuscule $3 million budget -- a budget that compares with $10 million for Canada, $10 million for Spain, $7 million for Mexico, $5 million for France, and $5 million for Greece.

Imagine what could be accomplished with a major budgetary effort on the part of the U.S. Government -- more funds not only for the U.S. Travel Service, but also for improved customs and reception centers, translation services, better park facilities, and so on. One can let one's imagination run wild in terms of a variety of actions -- governmental and non-governmental -- that would increase foreign travel to the United States. For example:

-- Why can't we have an attractive, comprehensive guide book for the United States, translated into a variety of foreign languages?

-- Why can't we give foreigners "standby" status on domestic airlines similar to that given to students and military personnel?

-- Why can't we fill thousands of empty university dormitory beds at vacation periods, provide revenues to the universities in question, and low cost lodgings to foreign student travelers?

-- Why can't we develop a system of certified guides using U.S. students with a high level of foreign language proficiency and familiarity with U.S. history and points of interest?

-- Why can't our airlines fight harder at international air conferences for differential air rates encouraging traffic to the United States?

-- Why can't we have a permanent World's Fair of Science and Technology -- a scientific Disneyland, located somewhere in the United States -- that would attract tourists and promote U. S. exports as well?

We need more interest, more action, and more imagination by both the Government and the private travel business. I am hopeful that the new travel task force about to be appointed by the President will make recommendations for institutional arrangements and for increased budgetary support of such an effort.

3. Increasing Our Direct Investment Income

There is much debate about the effect of direct investment on our trade balance. Some Analysts contend that the construction of manufacturing plants abroad preserves markets and promotes American exports. Others allege that the transfer of production from the United States to the foreign country results in a loss of U. S. exports.

One does not have to resolve this debate to reach the conclusion that at the very least direct investment must be sufficiently profitable to permit corporations to send home a steadily increasing stream of dividend and royalty income. The surplus of income over direct investment outflow must grow. Recent performance on this score has been disappointing.

Since the beginning of 1960, U.S.-controlled corporations have invested $42 billion (net of depreciation) in new plant and equipment and working capital outside the United States. The annual amount of such investments -- financed from earnings retained from abroad, other foreign funds, and funds from the United States -- rose from $3.7 billion at the beginning of the decade to nearly $10 billion in 1966. According to our estimates, this $42 billion investment has produced an incremental return in the form of earnings and royalties of only about 7 percent. (I include retained as well as repatriated earnings in this calculation.)

Since only about 37 percent of the financing for this investment came from the United States, the performance in balance of payments terms has been better but still inadequate. The annual excess of dividend and royalty income over direct investment outflows doubled, from $1 billion to $2 billion, in the period 1960-62. It has since remained on a $2-billion plateau.

These poor results can be attributed, in part, to a number of special factors -- hopefully largely non-recurring.

-- It would be difficult for corporate managements to increase domestic investments across a broad range of industries as rapidly as these expendituures have been climbing abroad in recent years without making mistakes. The business of making investments abroad is inherently more difficult than making them here -- there are the added difficulties of language, distance, finding personnel. Mistakes have undoubtedly been made, and it seems reasonable to assume that recent rates of increase cannot be sustained on sound business grounds.

-- There has undoubtedly been an element of "fashion" in recent overseas spending. A study last fall by a New York investment banking firm of 40 U. S. corporations accounting for 70 percent of U. S. direct investment in Western Europe indicated that almost half gave the desire "to be a world-wide enterprise" as the most important reason for making the investments in question; only 10 percent gave the desire to "earn a higher rate of return or profit margin" as the most significant motivation.

-- Even the best conceived investments of the last two years may not yet be providing maximum potential rates of return because of start-up costs.

-- Growth rates in certain important countries have slowed; favorable results have thus been delayed.

-- The cost of financing abroad is higher than here. In response to the voluntary programs administered by the Department of Commerce, firms have

been financing a larger percentage of their investment with funds obtained outside the United States -- 67 percent in 1966 as against 54 percent in 1960. The higher cost of foreign financing should have only a minor impact over the long run -- but it has its most telling impact in the early states of operation.

Past investment ought to become more profitable as mistakes are corrected, and operating rates improve. Future investment decisions by business should be more selective and prudent. If these favorable trends can be coupled with a moderate further reduction of direct investment outflows from the United States as European capital markets adjust to higher levels of overseas borrowing by U. S. corporations, the excess of our dividend and royalty receipts annually over direct investment outflows -- could and should increase by $2-$3 billion by the end of the decade.

Our present program and our long-range strategy are based on this premise.

4. Increasing Foreign Portfolio Investment in the United States.

Just as the United States travel industry must regard the sale of U. S. travel facilities to foreigners as an export, so the financial community should look upon U. S. securities as exports.

In exercising its fiduciary responsibilities, the investment community cannot, of course, put itself in the position of never recommending sales of domestic securities by foreigners. However, a number of the factors that make the United States a natural exporter of capital (its efficient money and capital markets make it cheap and convenient for foreigners to raise funds here) also make it a natural importer of certain types of foreign capital over the long run. The breadth of trading in our securities, the quantity and quality of information available on corporations, the speed with which information is transmitted to stockholders, the variety of investment instruments that are available (a new kind of mutual fund has recently been invented) make the United States a place where every long-term investor should put a portion of his savings. If he does, then outflows of other needed types of capital from the United States will be offset, in part, by these inflows, and we will have ~~a more rational,~~ if not perfectly balanced, two-way flow of funds.

The Fowler Task Force Report of 1965 addressed itself to this problem. Passage of the Foreign Investors Tax Act, designed to end tax discrimination against foreign investors, represents the latest and most important effort of the Government to implement the recommendations of that group.

The financial community is already hard at work selling securities to foreigners. It can probably do more.

-- Is there any way in which the industry can organize itself, on a cooperative basis, to provide foreign investors with more up-to-date, consistent information on changes in securities regulations? to translate brokerage material into foreign languages? and to encourage more corporations to translate reports into foreign languages?

-- Can foreign investment decision-makers be brought here more often and in larger numbers to visit companies uniquely American in managerial approach and in technological and merchandising skill? If such visitors were interested in obtaining first-hand exposure to United States economic policy-makers -- whose views are not irrelevant in investment decision-making -- top government officials would be at their disposal.

-- Looking to the more distant future, should our stock and commodity exchanges view themselves in more global terms, open for longer hours, providing material in all major languages, and beaming quotations via communications satellites to the major financial centers of the world?

There may be considerable scope also for investment in a variety of medium- and long-term U. S. instruments by those stewards of central bank assets who are more concerned with the creative utilization of their nation's reserves than with the preservation of sterile and outmoded traditions. As the Bible tells us, the steward who buried his master's talent in the sand was dismissed; those who wisely invested the talents entrusted to them earned their master's trust and praise.

5. Limiting Government Foreign Exchange Expenditures

We in the Government must not delude ourselves or others that the balance of payments deficit will disappear automatically when the Vietnam fighting stops and our foreign exchange costs in Southeast Asia drop. They will drop -- and hopefully quite substantially -- but like the month of June, they may "bust out all over" again, in other forms,unless we exercise self-discipline and insist that other nations do their fair share -- in the military and economic assistance field -- in meeting joint responsibilities.

We have already made quite an effort to hold down the foreign exchange costs of our military and economic assistance programs.

We have tied our bilateral aid so that virtually all of our aid money returns to us in the form of exports. Our job now is to make sure that the exports we receive from aid-tying do not simply substitute for exports we would have received anyway. A Treasury-Commerce-State-AID team will begin visits later this month to a number of major aid-recipient countries to see how performance can be improved.

We must intensify our technical assistance efforts, training personnel in less developed nations in the skills needed to sell and service U. S. products in their home countries. The United States Government should consider bringing more technicians from developing countries to the U. S. for training, not only in order to obtain exports while our aid programs are in progress but also after they have phased out.

In the field of multilateral economic assistance, the emergent Asian Development Bank with 20 percent of the capital provided by the United States, and the rest by Japan, Canada, Western Europe and other regional donors represents the kind of burden-sharing necessary if the industrial nations are, together, to promote economic progress in the less-developed world in the decades ahead.

With respect to other multilateral institutions, an increased U. S. contribution to the World Bank's soft loan window (International Development Association) will be contingent upon satisfactory balance of payments safeguards. The Executive Directors of the Inter-American Development Bank are looking at ways in which the balance of payments burden of their operations can be more equitably distributed.

In the military field, the Defense Department has already taken a broad range of steps -- in the handling of procurement, construction, and personnel -- to minimize the balance of payments costs of its activities. It has accelerated the sale of military equipment. Trilateral discussions between Germany, the United Kingdom, and the United States, the results of which are to be announced today, have included consideration of the problem of equitable financing of required troop levels.

The determination of a nation's "fair share" of economic and military assistance is not a simple matter. As Secretary Fowler recently stated, this issue can no longer be resolved solely by relating the size of a given country's contribution to the size of its gross national product. The form in which a donor provides aid, the terms of its aid, and its international liquidity position must be taken into account.

With U. S. negotiators approaching these critical matters in this spirit, I am confident we will cut the foreign exchange costs of our various overseas commitments from present levels when the fighting in Vietnam stops.

V. Summary

What I have been suggesting today is that a marginal

change in world trading patterns, spearheaded by a well organized, long-range U. S. export drive, can increase our trade surplus by $3-$4 billion; that more profitable overseas direct investment and a continuation of our present strategy, which calls for financing more of that investment from overseas sources, will lead to a $2-$3 billion gain in our direct investment accounts; that a more vigorous effort in the travel field will enable us, at worst, to prevent further deterioration in the travel deficit; that better organized efforts to sell U. S. securities by the U. S. securities industry will lead to a secular uptrend in foreign portfolio inflows compared to the flat trend of recent years; and that governmental discipline and hard-headed negotiations on burden-sharing will enable us to reduce official foreign-exchange expenditures.

Together, these changes -- which do not alter the character of the United States' role in the international world -- could bring a dramatic over-all change in our balance of payments results.

It would be naive to expect all of these things to happen quickly, or easily, or all of them to fall into place together in a given year.

As we move toward equilibrium by reducing our deficits, other countries with payments imbalances in the form of surpluses must also move into equilibrium. The program that I have outlined above for the United States calls for adjustment in the trade surpluses of these countries, improvement in their capital markets, and the export of more capital from them on more generous terms to the less-developed world.

Many countries have been seduced by the belief that time alone would yield a solution to their deficit. Milton Gilbert of the Bank for International Settlements has put it as follows:

> "In case after case in the post-war period we have seen deficit countries procrastinate and play around with half measures while the situation deteriorated, while reserves were drawn down, and while liquid resources were

> borrowed from abroad -- not because the need for policy action was not clear but because political difficulties stood in the way of firm action. And then, as the means of financing the deficit became scarce and a crisis developed, such obstacles were brushed aside; the policy actions previously claimed to be impossible and unworkable suddenly became possible and did work."

In the last resort, other deficit nations have invariably turned to a variety of restrictive devices to solve this problem: among them, controls on capital flows, on tourism, on trade; deflationary measures that have slowed demand for imports, increased exports, and at the same time thrown hundreds of thousands of individuals out of work. Surely these are not appropriate measures for the United States. Surely the United States has the time to solve this problem through the application of sound long-range measures.

Today, I have tried to list the kinds of positive, expansionary measures that I believe will solve our problem. Taken alone, certain of the measures I have described will have a trivial impact. But the cumulative impact of all these measures could be great -- resulting in better business for the American businessman, greater long-range flexibility for the United States Government in international affairs; and a larger -- not a smaller -- economic pie for the world.

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TREASURY DEPARTMENT
Washington

FOR RELEASE IN AFTERNOON NEWSPAPERS
FRIDAY, MAY 5, 1967

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY FOR TAX POLICY
UNITED STATES TREASURY DEPARTMENT
BEFORE THE
INTER-AMERICAN CENTER OF TAX ADMINISTRATORS
PANAMA CITY, PANAMA, FRIDAY, MAY 5, 1967

TAX POLICY AND TAX ADMINISTRATION

The topic we are discussing today is that of the relationship between tax policy and tax administration. In the first conference of tax administrators to be held by the Inter-American Center of Tax Administrators such a topic is a fitting one. It serves to remind us of the purpose of the activities we are discussing at this conference.

Put simply, administration serves to carry out policies and tax administration serves to carry out tax policy. The operational task of tax administration consists of the collection of tax revenues. Those revenues are to be collected within the framework of the laws that represent tax policy. Tax administration in the large consists of the efficient and effective processing of paper and the conduct of investigations to secure compliance in the payment of taxes. Those taxes are the constituent elements of tax policy.

Tax administration is thus the agent of tax policy. Tax policy is therefore in the position of a principal whose position may be improved or damaged by the strengths or weaknesses of the agent. But the path runs both ways. Tax policy must be premised upon a realistic understanding and appraisal of the capabilities of tax administration.

My purpose, based on my background of experience in the United States, is to explore some of the implications resulting from this relationship between policy and administration.

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First, tax administration serves as the bridge between decided tax policy and the taxpayer. Tax administration must therefore transpose tax policy to operations which are understandable to the taxpayer -- and, indeed, make the taxpayer understandable to the tax policy planners. The tax administrator must take the decisions of tax policy, expressed in the complicated form and language of legislation and regulations, and present them to taxpayers in a comprehensible manner that will enable taxpayers to understand and meet their obligations. The basic tools of the tax administrator for this purpose are the tax forms and instructions.

Tax policy planners will inevitably here cast a real challenge to the tax administrators, for modern tax systems are complex and in many respects growing more complicated. It will take a high order of ingenuity, experimentation and innovation to meet this challenge. Moreover, the path of successful tax administration lies in having taxpayers undertake as much of the paper work of taxation as is possible -- filling out of tax returns and computation of tax liability, withholding of tax on payments of income to others, furnishing of information returns on such payments of income, keeping orderly books and records in accordance with proper accounting principles, and so on. This will permit the tax administrator to concentrate his limited resources on the tasks that his agency alone can perform and thus increase its productivity. But success in this effort lies in the administrator's ability to educate the taxpayer to his responsibilities.

Essentially this task of the tax administrator as the bridge between tax policy and the taxpayer is to simplify the complexities of tax policy. The often expressed goal of tax policy -- tax simplification -- thus relies for its achievement on the ability of tax administration to produce the most important aspect of simplification -- a readily understood and readily operative tax system.

Second, tax administration in implementing decided tax policy must be fully consistent with the criteria of that policy. It is, of course, obvious that good tax administration can furnish more revenue than poor tax

administration and thereby provide a more favorable situation for tax planning. But poor tax administration is more than merely the collection of inadequate amounts of revenue. Poor administration often means the concentration of effort on one type of tax or one form of income to the neglect of the rest of the tax structure.

Thus, for example, the administration of an income tax that focuses on the collection of that tax on wages and salaries, because it is easier to reach that form of income, and neglects the application of the tax to investment income or professional income or business income is not effective tax administration, no matter how successful it is in taxing wages and salaries. Its concentration on one form of income distorts the policy of the income tax and turns it into an inequitable measure. Even where tax administration conscientiously seeks a fair application of the income tax, outmoded or inefficient audit practices, both in the selection of cases to audit and in the techniques of auditing, can turn an equitable tax into an inequitable one because of its uneven impact on taxpayers in the same general class. The inability to spot new techniques of tax avoidance and to cope with them has a similar consequence.

Of course, these defects of tax administration will usually be reflected in inadequate collections. But the point I wish to emphasize goes well beyond the poor showing in collections. Rather, it cautions that the essential structural characteristic of the income tax -- which generally causes tax policy planners to view that tax with favor -- that is, its equitable nature arising out of its relationship to ability to pay, is greatly diminished if in day-to-day administration this objective of the income tax is not achieved.

Again, still using the income tax as an illustration, poor administration may consist of the retention of outmoded principles that can likewise affect adversely the fairness of the tax. Thus, insistence on outmoded and inflexible rules of depreciation, inventory practices, or accounting methods, can mean that in actual practice a tax dependent for its fairness on an accurate measure of net profits will be inequitable because of distortions in the determination of those profits. In countries where accounting principles are well advanced, much can be gained through discussions between tax administrators and leaders in the

accounting profession to determine the causes of disputes between tax administrator and taxpayer in the determination of the tax liabilities of business taxpayers, especially those utilizing the services of accountants.

Third, tax administration must aid tax policy planning in as affirmative a way as possible. Up to this point I have been discussing decided tax policy -- existing taxes and tax laws -- and the responsibilities of tax administration in carrying out decided policies. But tax policy planners face the constant challenge of change -- change in economic and social goals, change in economic conditions. They must use fiscal policy in a responsive and responsible manner, and this generally means frequent changes in tax laws. New taxes, new adaptations of existing taxes through changes in their structure or their rates, the discarding of some taxes, these are the ways in which tax policy planners respond.

But such response will not always be along a well-trodden tax path. New taxes and structural changes in existing taxes should prompt the question to the tax administrator -- Can you handle this plan, this suggestion, this proposal? Can you administer this? It may be a new withholding system, a system of current tax collection, a new pattern of exemptions, a way of taxing income earned abroad, a way of taxing foreigners, a method of taxing capital gains, a new excise tax.

Whatever the change, these questions always invoke the responsibility of the tax administrator. Indeed, they are a challenge in the exercise of responsibility, for a sound answer calls for the application of informed and open-minded judgment. A tax administration afraid of innovation, comfortable in the status quo and in familiar routines, is likely to take the easier path by saying the new plan cannot be administered and then dressing up the answer with a veneer of administrative jargon and expertise. But in so protecting its comfortable existence it is false to its responsibilities. For the task of the administration is to serve tax policy and not to thwart it. These questions asked by tax policy planners should be met by the fullest exercise of ingenuity and innovative skill. The administrators should ask themselves, "How can we make the plan work? Has it been tried elsewhere and with what results? What are the possibilities of failure and what are the weaknesses, and what changes in the plan and the policy could offset them?"

This does not mean that every proposal of the policy planners requires a yes answer as to its feasibility. Some proposals can be unworkable. But the responsible tax administrator will remember that his client is the policy planner, and that the client will respect a no answer only if he has confidence that the administrator is basically seeking ways to make plans work rather than ways to find them unworkable.

Fourth -- and here I shift the focus of responsibility to the policy planner -- tax policy has obligations to the tax administrator. It must seek to avoid loading unnecessary tasks on the tax administrator, or tasks whose performance drains away too much of his resources. The tax policy planner must therefore avoid structural factors in taxes that involve too much complexity for mass operations and instead must seek as far as possible to confine complexity to those types of taxpayers that can themselves administer the complexities. He must discard outmoded taxes, and alter tax rules that breed constant litigation. He must moderate tax rates where full and effective administration would make them too onerous. And he must seek to formulate wherever possible guidelines for administrators and taxpayers for those areas of the tax law that are phrased in general terms. A good part of recent changes in United States tax regulations and rules has involved the furnishing of such guidelines -- for example, in depreciation and in the adjustments of the accounts of related taxpayers, such as parent and subsidiary corporations or enterprises owned by the same taxpayer.

Of course, the tax administrator must be alert to inform the tax policy planner of these trouble spots and seek his aid. Far too often tax administrators seem content year in, year out to struggle, sometimes resignedly and sometimes with spirit, with problems just not worth struggling about. Instead, they should be counselling with tax policy planners on how to surmount the struggle by a new policy that involves a different approach.

The tax planner must also be alert to provide tax administrators through his tax policy with modern techniques of tax administration -- such as withholding systems, current collection of taxes, the use of information returns, and so on. He must see there are no legislative impediments to the use of modern accounting techniques to measure net profits. And, above all, he should furnish the administrator with adequate funds and adequate power to secure proper personnel,

to train them well, to provide them with good working conditions, and to maintain a high morale that induces competent and honest performance. Personnel in tax administration occupy a key position in the affairs of government. The policy planner must fully assist the tax administrator in securing and retaining competent personnel desirous of fulfilling that role.

Against this general background of the broad aspects of the relationship between tax administration and tax policy, it may be helpful to consider some specific matters in that relationship which current and future events indicate are likely to require the attention of tax administrators. Put another way, given the likely path of tax policy changes in the years just ahead, what should tax administration be planning and preparing for.

<u>Availability of Data to Measure Effectiveness of Tax Policy</u>. -- Tax policy planners are above all interested in the effectiveness of their plans. They want first to be able to predict as accurately as possible what will be the consequences of their tax proposals and next to be able to assess the actual effectiveness of those proposals that have been enacted and thereby have become decided tax policy. The fulfillment of both tasks requires adequate data. A considerable part of the economic and statistical data needed will come from outside the tax system. But much, perhaps most, can and should be produced as a product of tax administration.

Predictability of the results that alternative tax plans will produce is greatly heightened by the degree of success that has been achieved in administering existing tax laws. A high order of success in the handling of existing tax policy -- accomplished through competent personnel, good methods and procedures, honest enforcement, a tax-paying public informed as to its responsibilities -- will permit the policy planner to have confidence that his revenue predictions for a particular proposal will be borne out in actual operation. He will be able to assume that a similarly competent administration will be accorded to the new policy. On the other hand, weaknesses in the administration of existing policies are likely to be reflected in the handling of the new policies, absent specific policy changes to meet the problems that caused those weaknesses.

Hence tax policy planners need the data that measure the nature of current operations -- and they need this data in accurate, reliable and understandable form. What is the degree of present voluntary compliance, what does it indicate as to whether taxpayers can take on new duties and obligations? What is the status of the processing of returns and other documents -- and are there such backlogs that new paper work will simply swamp the whole machinery?

With the tax policy planner thus in a position to predict the degree of "administrative discount" that should be applied to a new policy proposal, he must then look to the tax administrator for whatever information the latter may have that will assist in shaping the substantive content of the new policy. Here he seeks a whole variety of facts regarding the taxpayers and activities affected by the proposal. The competence and currency with which data from tax returns and like sources are gathered will determine how fortunate he will be. Quite often, he will unhappily find that the existing data are quite sketchy. Still, tax policy must move ahead and the laws will be passed.

But this shortage of initial information in the formulation of tax policy should be no excuse for a future lack of data with which to judge the effectiveness of the decided policy. Here the tax policy planner should collaborate with the tax administrator and indicate at the outset what data regarding tax effects under the new policy it would be helpful to gather for this purpose. Tax forms should be planned which will provide the data and the proper tabulations should be scheduled.

Much of future tax policy will concern itself with economic development. Many countries will experiment with tax incentives and tax remissions, with special provisions shaped to achieve economic or social goals. These countries must be in a position to judge as well as possible whether the ends sought are being obtained, or whether instead the revenues foregone through tax incentives and remissions have become revenues wasted. Such revenue reductions are but expenditures of Government in another form. Like expenditure policies, their effectiveness must be assessed at frequent intervals, or else the tax system will be a collection of expensive but useless measures. It is well to remember that tax administrators are often the only link between the tax policy officials of one Administration to the next, so that only the administrators can provide the necessary collection of data.

Planning For Broad-Based Taxes.-- In many countries tax policy planners will be seeking to broaden the base of the tax system and apply it to an increasingly larger portion of the population. The tax administrator in these countries must therefore constantly be assessing his organization from the standpoint of its capability for expansion of operations. He must not be content to see at present a smoothly purring organization and let it go at that. Instead, he must ask himself how well will the machinery be functioning a few years ahead under a heavier and perhaps different work-load. Will it be able to handle more returns, the processing and audits of returns showing relatively small amounts of income, a greater variety of taxpayers and a greater variety of forms of income, and so on? How well will the present system adapt to the new methods and new technology in administration that lie just ahead?

Ownership of Capital.-- Tax policy planners will be concerning themselves increasingly with the process of capital formation and capital accumulation. Their concern will involve many aspects and will in turn place many new and varied demands upon administrators. Only a few examples are needed to illustrate the point. The first example relates to the corporation-shareholder relationship and the evidence of that relationship. In the United States, the United Kingdom and some other countries, the basic corporation law requires essentially that shares of stock be in registered form. As a consequence the tax administrator is generally in a position to ascertain the ownership of a corporation and obtain the identity of the individual share-holders. Where stock is registered in the name of a nominee, the tax administrator has the authority to require disclosure by the nominee of the true owner. The trend in bonds and other debt obligations is also increasingly to the use of registered instruments.

In other countries, however, bearer securities predominate and the task of the tax administrator -- and the policy planner -- is more difficult. In these countries tax administrators will have to devise ways to cope with the problems presented by bearer securities and work toward the use of registered instruments. Techniques will have to be developed, pertinent to the forms of security ownership and to the pattern of corporate organization, that will enable the tax administrator to trace stock and bond ownership.

Problems of a somewhat similar nature relate to other forms of private wealth. Thus some countries will be seeking, in connection with urban development, to dampen speculation in urban property and may turn to the tax system for this purpose, particularly the taxation of gains from sales of such property. Consequently tax administrators must develop techniques to keep track of changes in the ownership and value of urban properties.

Indeed, tax administrators -- and the accounting and legal professions -- increasingly will have to see that the data pertinent to all important forms of wealth for the purposes of a tax system are available, so that policy planners are free to assess the policy implications of various plans against a background that can assume the general feasibility of their plans. Such data relate to the tax cost of property, ownership and changes in ownership, changes in values and in the character of use, current costs and capital improvements, and the like.

Land Utilization. -- Land utilization is another major area to which policy planners will be directing their attention. There is often a tendency to defer agrarian reforms until cadastral surveys are completed, but such a complete survey need not be a prerequisite. Instead -- and until more is done -- tax administrators must develop a capability in measuring performance in the utilization of land and in devising simple techniques for identifying parcels of property so that their productivity can be determined and assessments levied, if a policy calls for it, according to the degree of utilization.

Multinational Corporations and Common Markets. -- Modern international trade and investment have seen an accelerated increase in the growth of multinational enterprises -- enterprises with a corporate headquarters in one country and with subsidiaries and branches located in many other countries. Generally these enterprises have had their headquarters -- the parent or top corporation -- in developed countries. But the formation of a Common Market in Central America and Latin America is likely, in turn, to give rise as well to Latin American multinational enterprises with the corporate headquarters in one of the Latin American States and with the component units scattered throughout the other countries in the Common Market area.

Tax administrators therefore will have to keep abreast of developments in this movement for a Common Market and to anticipate the problems of administration that will be encountered in their tax relationships with such multinational enterprises. The problem, of course, exists even today in connection with the multinational corporations operating in Latin America which have their headquarters in developed countries elsewhere.

Indeed, administrators throughout the industrialized world are beginning only now seriously to grapple with the problems of tax administration involved in such multinational operations. For example, the United States is in the process of formulating the guidelines to govern the administration of the provision of its tax law requiring a proper allocation of income and expenditures among the component parts of these multinational operations. Moreover, the provisions in international tax treaties relating to this matter are now being more carefully analyzed and structured so that they will provide appropriate methods of international accommodation to the inevitable problems of allocation. Consequently Latin American tax administrators will find, in developing expertise and techniques to deal with the problems of allocation that arise in the context of the application of their tax systems to these enterprises, that they will also be putting themselves in a position to handle with confidence the issues arising under this aspect of double taxation treaties.

Tax Flexibility. -- I have several times referred to the necessity for tax policy planners to be alert to the need for changes in tax policies. More and more it is being recognized that tax policy has a major role to play in promoting economic growth accompanied by reasonable price stability. It is equally being recognized that the path to this objective is not that of rigidity in policy. Economic conditions, affected both by internal and international developments, can change rapidly and today's satisfactory tax policy can quickly become the course of disaster under changed conditions.

The tax policy planner will therefore try to follow a flexible tax policy and to that end will be seeking to deter-

mine which kinds of taxes and which variations in those taxes lend themselves to such flexibility. For the most part policy planners are still in the learning state as respects a flexible tax policy and the tax tools for its exercise.

The tax administrator must be in a position to accommodate his operations to this flexibility in policy. He must be able quickly to implement a decision for a temporary increase or decrease in the rates of income taxes or in the rates or scope of excise taxes. He must be able to cope with a sudden decision to suspend particular tax incentives and then to restore them just as quickly.

It is this area of the execution of a flexible tax policy that the tax administrator and tax policy planner must work in closest harmony, for it is here that each will find his skills and insights placed under the greatest strain. The tax policy planner has his problems of short-range economic forecasting and of prediction as to the economic consequences of alternative courses of tax policy. The tax administrator will have his problems -- the load put on his operating resources through the need to implement sudden changes in course, especially if the changes involve new approaches. He perhaps can learn from the experiences of other countries which have gone through similar situations. Conferences such as this are one means of developing the communication of these experiences among tax administrators and policy planners.

In conclusion, we can see that the overriding need in the relationship between tax policy and tax administration is a relationship of harmony, based on mutual understanding and informed communication. Tax administration exists to carry out tax policy. This essential function can only be successfully accomplished if both the tax policy planner and the tax administrator share fully in a frank appreciation of the problems and goals of each other.

The tax administrator must conscientiously strive to execute the tax policies that have been decided upon. He must, however, at all times give the tax policy planner a frank realistic picture of the existing operations and future capability. The tax policy planner must be realistic in the tasks that he sets for the tax administrator as the result of policy choices. Realism in the recognition of the problems

of tax administration will come far more readily on the part of the tax policy planner if he feels in turn that the tax administrator is using all of his resources of skills, imagination and innovation to accomplish in a positive manner those courses of policy deemed appropriate by tax policy planners.

The degree to which tax policy can serve in procuring satisfactory economic development and desirable social changes thus rests on the success that the tax policy planner and the tax administrator have in achieving this harmonious relationship.

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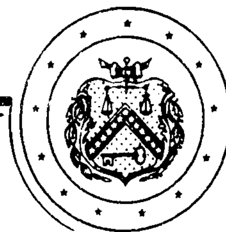
TREASURY DEPARTMENT



WASHINGTON, D.C.
May 2, 1967

FOR IMMEDIATE RELEASE

UNITED STATES AND ARGENTINA SIGN EXCHANGE AGREEMENT

Secretary of the Treasury Henry H. Fowler, the Ambassador of Argentina, Alvaro C. Alsogaray, and the President of the Central Bank of Argentina, Pedro E. Real, today signed a $75 million Exchange Agreement between the United States Treasury and the Government and Central Bank of Argentina.

The Exchange Agreement is for a one-year period. It is designed to assist Argentina in its efforts to promote economic stability and freedom in its trade and exchange system. The Agreement provides for the conduct of exchange operations, as deemed mutually desirable and advantageous. The United States may purchase Argentine pesos with dollars from time to time, and Argentina will subsequently repurchase the pesos.

These operations will have as their objective maintenance of the stability of the U. S. dollar/Argentine peso exchange rate and, thereby, the promotion of confidence in the foreign exchange market and increasing trade and other exchanges between the two countries.

The Agreement signed today complements the $125 million stand-by arrangement with Argentina announced on May 1, 1967 by the International Monetary Fund.

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F-901

May 2, 1967

FOR IMMEDIATE RELEASE

JOINT RELEASE OF THE TREASURY DEPARTMENT AND FEDERAL RESERVE BOARD ON EXCHANGE OF LETTERS ON GERMAN RESERVE POLICY

Public announcements were made today by the U. S., British and German Governments on the results of discussions among the three countries concerning their military forces in NATO and the balance of payments consequences of U. S. and U. K. troop deployments in Germany. The U. S. press release refers to the fact that the German Bundesbank, in agreement with the German Government, has made known its intention to continue its practice of not converting dollars into gold as part of a policy of international monetary cooperation.

In this connection, the Treasury Department and the Federal Reserve Board are releasing herewith the texts of an exchange of letters between the President of the Bundesbank, Karl Blessing, and the Chairman of the Federal Reserve Board, William McChesney Martin, Jr., concerning the Bundesbank's general reserve policy. Also released was the text of a letter to the Bundesbank from Chancellor Kiesinger, stating that the German Government supports the Bundesbank's policy.

Attachments

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F-902

Airmail

April 13, 1967.

The Honorable Karl Blessing,
President,
Deutsche Bundesbank,
Taunusanlage 4-6,
Frankfurt (Main), Germany.

Dear Karl:

I am pleased to acknowledge receipt of your letter of March 30, 1967, together with a copy of the letter from Chancellor Kiesinger to you of the same date.

Your letter speaks for itself regarding the Bundesbank's policy with respect to conversions of dollars into gold from the U. S. Treasury, and the support of the Government of the Federal Republic of Germany for this policy is made amply clear in the Chancellor's letter.

I am deeply grateful for your efforts and understanding in bringing this about and I am sure it will prove mutually very helpful. Please accept my warm appreciation.

With all good wishes,

Sincerely yours,

Wm. McC. Martin, Jr.

DEUTSCHE BUNDESBANK

DER PRÄSIDENT

FRANKFURT AM MAIN, March 30, 1967

Mr. Wm. McC. M a r t i n , Jr.
Chairman of the Board of Governors
of the Federal Reserve System

W a s h i n g t o n , D.C. 20551

Dear Mr. Martin,

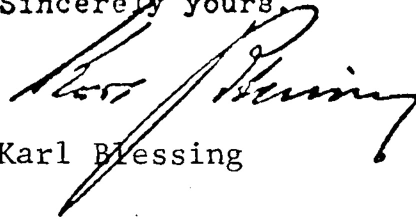
There occasionally has been some concern expressed in the United States that DM expenditures resulting from the presence of American troops in Germany lead to United States losses of gold.

In this connection we would like to point out three things. (1) Changes in Bundesbank reserves reflect a combination of developments in all parts of the German balance of payments; (2) DM expenditures for American troops in Germany and compensating German military purchases in the United States are only two factors in that balance; (3) German foreign exchange reserves have shown very little net change over the past several years.

Furthermore, the situation should be viewed within the context of the general reserve policy of the Bundesbank. You are, of course, well aware of the fact that the Bundesbank over the past few years has not converted any of the dollars accruing out of German foreign exchange surplusses into gold from the United States Treasury. The increases in our gold reserves over these years came about mostly through gold sales of the IMF in connection with the DM purchases for the British drawings in the IMF and through our participation in the Central Banks' Gold Pool.

By refraining from dollar conversions into gold from the United States Treasury the Bundesbank has intended to contribute to international monetary cooperation and to avoid any disturbing effects on the foreign exchange and gold markets. You may be assured that also in the future the Bundesbank intends to continue this policy and to play its full part in contributing to international monetary cooperation.

Sincerely yours,



Karl Blessing

(TRANSLATION)

FEDERAL REPUBLIC OF GERMANY
THE FEDERAL CHANCELLOR

Bonn, March 30, 1967

Mr. Karl Blessing
President of the German Federal Bank
(Deutsche Bundesbank)
P.O. Box 3611
6 F r a n k f u r t /Main

Dear Mr. Blessing:

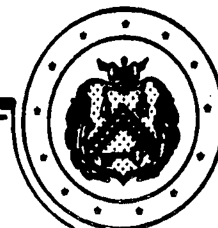
The Federal Government has taken note of the letter of March 30, 1967 from the Bundesbank to the Chairman of the Federal Reserve Board. The Federal Government approves of the content of this letter and supports the policy of international monetary cooperation, reflected therein. The Federal Government bases its approval on the assumption that the American partners will consider the Bundesbank's declaration of intent to be a contribution toward facilitating the progress of the offset negotiations with respect to the period after July 1, 1967.

The Federal Government has also taken note of the intention of the Bundesbank to purchase with reserve funds U.S. Government medium-term securities in the total amount of $500 million in four equal quarterly instalments, beginning July 1, 1967.

Very sincerely yours

[signed] K i e s i n g e r

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 3, 1967

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 May 11, 1967, in the amount of $2,300,030,000, as follows:

91-day bills (to maturity date) to be issued May 11, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated February 9, 1967, and to mature August 10, 1967, originally issued in the amount of $1,000,116,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated May 11, 1967, and to mature November 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, May 8, 1967. 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-903

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 Treasur 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 May 11, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 11, 1967. Cash and exchange 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 hereunde need include in his income tax return only the difference between the price paid for such bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made, as ordinary gain or loss.

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

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TREASURY DEPARTMENT

WASHINGTON, D.C.
May 3, 1967

FOR IMMEDIATE RELEASE

MICHAEL BENSON NAMED STAFF ASSISTANT
TO UNDER SECRETARY OF THE TREASURY

Michael Benson has been appointed staff assistant to Under Secretary of the Treasury Joseph W. Barr.

Mr. Benson has been a correspondent for Reuters (News Agency) Ltd., since September, 1965. Prior to that he had been Washington Bureau Chief of the American Banker.

Mr. Benson, 31, has written for Finance magazine and the Christian Science Monitor. He began his career in journalism with the New York Times.

He was born in New York City and attended public schools there. He graduated from Queens College of the City University of New York in 1958, and subsequently attended New York University Graduate School of Business Administration.

Mr. Benson has been a member of the White House Correspondents Association, the National Press Club, the New York Financial Writers Association and the National Aviation Club.

Mr. Benson is single and resides at Arlington (2115 North 18th Street) Virginia. His parents, Mr. and Mrs. Joseph R. Benson, reside at Ardsley, New York.

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F-904

STATEMENT BY THE HONORABLE TRUE DAVIS
ASSISTANT SECRETARY OF THE TREASURY
AND UNITED STATES EXECUTIVE DIRECTOR
OF THE INTER-AMERICAN DEVELOPMENT BANK
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL
FINANCE OF THE BANKING AND CURRENCY
COMMITTEE, HOUSE OF REPRESENTATIVES
MAY 3, 1967, 10 A.M.

Mr. Chairman and Members of the Committee:

I am pleased to accompany Secretary Fowler and Assistant Secretary Gordon on their appearance in support of the proposal for an increase in the resources of the Fund for Special Operations of the Inter-American Development Bank. Secretary Fowler has presented you the reasons for the proposed increase. Assistant Secretary Gordon has given you the political and economic context in which the Inter-American Development Bank operates. As United States Executive Director of the Bank I would like to add some comments on the organization, management, and operations of the Bank. I might add that I make these comments against the background of one having come into governmental service after a long career in domestic and international business.

Under the Bank's Charter, the Board of Executive Directors is "responsible for the conduct of the operations of the Bank." In the fulfillment of this duty the Board takes an active, direct and continuous interest in the affairs of the Bank. As of April 15, the Board has authorized from all available resources 407 loans, totaling $2.037 billion. These loans are described in greater detail in the Report of the Executive Directors recommending these increases in the resources of the Bank. This report is available as an annex to the present report by the National Advisory Council. Suffice it to say that the loans cover the broadest

spectrum of activities -- agriculture, education, health, industry and mining, water and sewerage, housing, transportation and electric power. They cover governmental and private loans, technical assistance and pre-investment financing, multi-national loans and regional development. In short, the Bank is the single most comprehensive lending institution which represents to our Latin American friends <u>their</u> Bank for the Alliance for Progress. This multitude of activities and responsibilities places a heavy burden on the Bank's organization and management and, of course, its Board of Executive Directors.

The Board is expected to be familiar with the details of all loan transactions in order to determine whether or not they comply with the letter and spirit of the Bank's Charter. This involves a careful examination of the economic, financial and technical analyses of the project as contained in the loan document. If the loan is not fully satisfactory, changes are proposed and referred back to the staff to negotiate with the borrower. Under provision of the Bank's Charter, loans from the Fund for Special Operations can be granted only if the United States Director votes positively for the proposal. In addition to passing on loan applications the Board makes determinations on matters of general policy and organization and is consulted on basic management problems by the management of the Bank.

Under the Agreement, the United States appoints its Executive Director. The remaining six Executive Directors are elected by the Latin American members without participation by the United States.

As required by the Agreement, the Executive Directors are persons of recognized competence.

When the procedures for the election of the Latin American Directors were originally drafted in 1959, it was expected that Cuba would become a member of the Bank. When that country remained outside the Bank, the balanced Latin American representation which the election procedures were designed to assure was disturbed. The proposed Resolution on election to the Board of Directors would rectify this situation to the satisfaction of the Latin American members and would in no way affect United States representation or voting power in the Bank. Since the proposed Resolution involves an amendment to part of the Bank's Articles of Agreement, Congressional authorization is required in order that the United States Governor may vote for the Resolution.

Since there are many development programs, national and international, operating in Latin America, there is an unquestionable need to look at coordination efforts. Within the United States government, the National Advisory Council is the forum where every loan is reviewed and we achieve effective coordination of this Bank's efforts with other United States and international financing agencies. With regard to the Bank, I am in wholehearted agreement with the statements contained in your recent report, Mr. Chairman, that coordination at the headquarters level and in the field is an absolute necessity to avoid duplication of effort and insure maximum use of scarce capital resources. I believe there have been notable improvements in this area from the early days of the establishment of the Bank,

both in relating overall country programs and performance to the Bank's activities and in approving and carrying out individual projects.

We now have the Inter-American Committee for the Alliance for Progress, CIAP, which provides a multilateral framework to establish standards of performance, to spur self-help measures, and to evaluate institutional programs, including fiscal and monetary reforms. The CIAP also provides the forum where the AID, the IBRD, the Export-Import Bank, and the IMF and the IDB are able to meet together and exchange views and information and concert their efforts. The office of the Program Advisor represents the Bank in these matters. This office has in recent years moved into developing multi-year programs as part of a total country development strategy and has related these programs to the work of other external financing agencies, particularly to the United States bilateral efforts. Additionally, the Bank has been establishing and strengthening its field offices so that the dialogue goes on in the field as well as in Washington. There have been gaps in the past and there continues to be room for improvement. However, the AID Mission Directors in an annual meeting here in Washington last week reported that the last year has shown major improvements.

To assure that its organization and procedures are kept current with the increasing workload and modern techniques, the Bank has contracted with a leading United States management consulting firm. The Bank has established within its Operations Department a division of loan administration. This unit is focusing attention on the implementing actions needed to bring the loan into final fruition.

Also, a controller of operations with a small staff has been established to spot-check all operations and delve into particular problem matters. These organization units are additional to the usual internal auditor and audits conducted by Price Waterhouse and Company.

The Bank has continuously been improving its disbursement controls and procedures. In order to hold out hope to the peoples of the Hemisphere that actions were underway to deal with their pressing economic and social problems, in the early stage of the Bank there were cases where perhaps loans were authorized too rapidly. As greater understanding of the development process and of working with external financial agencies has occurred, it has been possible to complete many conditions prior to the authorization of the loan, rather than authorizing the loan and the funds remaining unused until those conditions were fulfilled. Authorization of loans prior to contract signing enables the borrower to raise its contribution to the project, to carry out the final stage of the complete engineering plans, or to take other preliminary but essential action that it would otherwise not take unless it had the assurance that financing would be available.

The Bank has established mechanisms which provide that disbursements will be made only as expenditures are incurred for specific goods and services and the conditions upon which the loan is made has been met. It is, therefore, possible to follow each item financed by the Bank from the determination of specifications and the placement of an order to the delivery of an item and its actual use in the project. As a general

rule, the Bank engages the service of project engineers, consulting firms, and other specialists required for proper inspection and supervision of each operation with the borrower bearing these special costs.

The Bank continues to accelerate its disbursements within the bounds of sound and careful management. At the end of 1965, 38 percent of the Bank's portfolio was disbursed; at the end of 1966 this was increased to 42 percent. The nature of many of the Bank projects in less developed countries requires that the period of disbursement be much longer than in the United States. There are also cases where the halting or slowdown of disbursements is necessary to accomplish the desired reforms, particularly in the pioneering efforts of loans for agriculture and education. In addition, the Board conducts a detailed review semiannually of the slow-moving and problem loans in order to take the necessary action, including cancellations. The Board and the management agree that funds cannot be earmarked and unspent with the needs of the Hemisphere so great and the resources limited.

One important test of the ability of an organization is the calibre of its personnel. In general, the Bank has reason to be proud of the dedicated North and Latin Americans on its payroll. The Bank has at its top levels leading specialists in the agricultural, education, legal, economic, and engineering fields. Here again we cannot be satisfied and need to continue to improve the calibre of all personnel and representation of the United States talent on the staff of the Bank. As Secretary Fowler said at last week's Board of Governors' meeting, "I believe each of our

governments equally has the responsibility of assuring that the Bank has at its disposal - even if only for a relatively short time - the intellectual and technical best that the Hemisphere can produce."

I cannot close without calling your attention to the real accomplishments financed by the Fund for Special Operations and the Social Progress Trust Fund, listed in the Bank's report, Socio-Economic Progress in Latin America, provided to the members of the Committee. There are listed the success stories in houses built, roads constructed, jobs created, savings and loan institutions established, school rooms being utilized, and agricultural credits provided.

To summarize, the Inter-American Development Bank -- the Bank of the Alliance, the Bank of Integration -- is a truly multilateral institution, where the United States has an important role to play. As a multilateral institution it can do many things which are difficult to achieve bilaterally and the United States will continue to obtain many benefits from this arrangement. We are certain that the necessary coordinating arrangements and policies and control mechanisms are equal to the task before us, and that the development process is so dynamic that the necessary changes will be effected on the basis of experience and needs of the Hemisphere.

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL
FINANCE OF THE HOUSE COMMITTEE ON BANKING
AND CURRENCY ON INCREASING THE RESOURCES
OF THE FUND FOR SPECIAL OPERATIONS OF THE
INTER-AMERICAN DEVELOPMENT BANK
MAY 3, 1967 - 10 A. M.

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before you today in support of a proposal to increase the resources of the Fund for Special Operations -- the FSO -- of the Inter-American Development Bank.

The proposed legislation on this matter was transmitted to the Congress on April 28. There has also been submitted to the President and to the Congress a Special Report of the National Advisory Council on International Monetary and Financial Policies. This Special Report describes the background and the details of the proposal

and includes a recommendation of the Council that the Congress act favorably on the proposal. I have also made available to the members copies of the Bank's latest Annual Report, for the year 1966.

I have with me today the Assistant Secretary of State for Inter-American Affairs, Mr. Lincoln Gordon, and the United States Executive Director of the Bank, Assistant Secretary of the Treasury, Mr. True Davis. With your permission, I should like to make an introductory statement on the proposal, after which I will call upon these gentlemen to supplement my remarks. Mr. Gordon will provide you with information on the general context in which the proposal is presented -- the Alliance for Progress and, most notably, the recent meeting of the Presidents of America in Punta del Este.

Mr. Davis will testify regarding the Bank, and describe its management and its administration of the tasks entrusted to it by the inter-American community.

* * *

The Fund for Special Operations of the Inter-American Development Bank was established as the so-called "soft-loan window" of the Bank. It has long been amply clear that the less-developed countries cannot assume on conventional banking terms the capital required to advance their development. The problems of economic and social development are too vast, and the resource transfers required from the more-developed to the less-developed countries are too great. This has been recognized in our own bilateral assistance programs, which have long provided the more liberal terms appropriate for long-term development. Among the international

institutions, the problem had been recognized prior to the establishment of the Bank by the creation of the International Development Association, IDA -- as an essential partner of the World Bank, to make loans on softer terms than was otherwise possible by the World Bank. As is the case with IDA, the funds to support FSO lending activities can be obtained only from member contributions. There are no private sources of funds on the soft terms required.

The United States has participated in the concessional lending activities of the Inter-American Development Bank through two separate facilities -- the Social Progress Trust Fund, created by the United States and administered by the Bank, and the FSO. Through 1964, the United States contributed $525 million to the SPTF

and $150 million to the FSO. In 1965, however, it was decided to terminate further contributions to the SPTF, to assign the functions heretofore performed by it to the FSO, and to increase the United States contribution to the FSO as the sole remaining soft-loan operation within the IDB. In order to provide for this expanded level of activities, the Congress authorized a U. S. contribution of $750 million in support of FSO operations foreseen through calendar year 1967.

* * *

It is now necessary to consider a further replenishment of the resources of the FSO. The last replenishment, as I have noted, was intended to provide

for operations through 1967. The Governors of the Bank at their meeting in Mexico City in 1966 instructed the Executive Directors to study the position of the Bank's resources and possible needs subsequent to 1967, and to prepare a report and recommendations for consideration at the 1967 Governors meeting. You will find before you, as an Annex in the Special Report of the National Advisory Council, the Report which the Executive Directors submitted to the Governors at their meeting here in Washington last week. After consideration of the Directors' Report, I joined the other Governors in adopting a Resolution recommending that the Bank's members take the necessary steps, under their constitutional processes, to make effective an increase of the resources of the FSO, as recommended by the

Executive Directors, beginning at the end of this calendar year.

But in moving, as I have done, from the meeting of the Bank's Governors in Mexico and their meeting here last week, I have passed over a year of historic consequence to Latin America and inter-American cooperation. This was a year of intense activity which culminated in the meeting of American Presidents three weeks ago, and the promulgation on April 14th of the historic "Declaration of the Presidents of America."

The development of the Inter-American Development Bank in its brief existence has been profoundly affected by two great milestone events in inter-American cooperation. The first of these was the Act of Bogota

of 1960. This brought us to recognize the key role of social development in economic improvement. Next was the Charter of Punta del Este, establishing the Alliance for Progress as the guide for all our efforts toward the betterment of the Hemisphere and the lives of our peoples. The replenishment of the Fund for Special Operations which we are now asking you to approve would be the first concrete implementation of the third landmark event -- the Declaration of the Presidents, giving new vigor and new directions to the Alliance of the Americas.

The Report of the Executive Directors, the deliberations and actions of the Governors, and the proposal which is now before you have fully taken into account the decisions of the Presidents at Punta del Este.

In accordance with these decisions, the Latin American members of the Bank have again resolved to increase and strengthen their own self-help efforts. This resolve finds its tangible expression in the proposal to double the future contribution of the Latin American members of the Bank to the Fund for Special Operations. For the three years 1965-1967, their contribution in their own currencies was the equivalent of $150 million; for the next three years, they propose to make contributions the equivalent of $300 million. Moreover, the principle of self-help is now being extended to that of mutual self-help. The four largest Latin American members -- Argentina, Brazil, Mexico, and Venezuela -- propose to permit a substantial portion of their contributions to be used

by the Bank to make loans to the other members, which are relatively less industrialized and have relatively weaker financial and resource capabilities.

As is made clear in the Report of the Executive Directors, the future activity of the expanded FSO -- as well as the activity of the entire Inter-American Development Bank -- will be oriented especially toward those problem areas singled out for special attention by the Presidents.

The urgent problem of rural modernization and improved agricultural production -- especially of food -- will be given the highest priority, as it deserves. I would not miss this occasion to note the extremely valuable contribution toward our understanding of the critical issues at stake, for Latin America and

the entire world, which was made last Fall by this Subcommittee and its distinguished Chairman. Your efforts have greatly influenced the approach to the problem reflected in the Declaration of the Presidents as well as in the policies of the Bank set forth in the Report of its Directors. Please accept my personal appreciation of your contribution.

In addition to redoubled efforts in agriculture, the Bank proposes an extension of its activities in education and health in the directions laid down by the Presidents. And the Bank now proposes to move forward even more vigorously in the new direction agreed upon by the Latin American Presidents -- toward the multinational infrastructure required for the development of Latin America.

To this end, the Bank has already established a "Pre-investment Fund" within the FSO to carry out the urgently needed feasibility studies and other necessary preparations for the execution of multinational projects. The Bank proposes to devote annually up to $100 million of its resources (both Ordinary Capital and FSO) toward the financing of such projects. Multinational projects will not only assist in bringing the Continent together by improved transportation and communications and beginning the exploitation of the vast physical resources possessed in common -- such as water and power -- but also further the Common Market objective which the Latin American Presidents have set for themselves.

It was to meet this new responsibility to move forward with multinational projects that President Johnson, in his message to the Congress of March 13th, on the forthcoming meeting of the Presidents, proposed an increase of $50 million in the annual level of our contributions to the FSO, over and above the $250 million annual level of our contributions in the past.

The proposal before you thus seeks your authorization of a $900 million U. S. contribution to the FSO over a three-year period. Such a U. S. contribution stands in a ratio of 3 to 1 to the proposed contributions of the Latin American members, in contrast to the ratio of 5 to 1 which applied in the last increase of FSO resources agreed in 1965.

As Secretary of the Treasury, as well as United States Governor for the Bank, I have had the responsibility to assure myself that the operations of the Bank -- as of the other international institutions -- are conducted in a manner consistent with our balance of payments policy. Beginning with their last expansion in 1965, loans from the U. S. contribution to the FSO were made subject to the same procurement regulations applied in the SPTF. Such funds must be spent in the United States, except in cases where the Bank may approve procurement in a Latin American member country when this is considered advantageous to the borrower. Dollar funds may also be used in the country of the borrower to finance local project costs, but the dollars must then be spent in the United States under

special letter of credit procedures similar to those of our own bilateral aid program. The substantially enlarged Latin American contribution to the FSO now proposed will help to limit the use of dollars necessary to finance local project costs, and the Bank has also proposed to limit the use of dollars for local costs -- except for agriculture and education -- to the levels achieved on the average in 1966. The special letter of credit technique will also be kept under review to improve its effectiveness. Taking account of these measures to strengthen U. S. export additionality associated with U. S. assistance, and on the basis of our experience in the SPTF, we estimate that about 90 per cent of FSO funds disbursed in the future will return to the U. S.

I am happy to report to you that I have met with complete understanding and cooperation on the part of the Bank in measures to safeguard the U.S. balance of payments. For example, I should like to quote for you some passages from the recent Report of the Bank's Directors on the proposed increase in resources:

> "Many activities of the Fund require a substantial amount of local currency expenditure. However, in relation to the financing of local costs with dollars, recognition must be given to the problem of the balance of payments of the United States, and the Bank will attempt to hold

such financing to an appropriate minimum. The Bank is also striving to improve the present procedures whereby such local cost financing is carried out with the least effect on the United States balance payments. In the light of these problems, which should be regarded as basically transitory in nature, the Bank and its members fully appreciate the difficulties inherent in United States responsibilities in the free world. Accordingly, the Bank proposes to cooperate in the greatest possible degree with the United States

in meeting these difficulties by suitable measures, which obviously would be subject to review as conditions changed.

The percentage of dollar financing for local costs will be established in accordance with the nature and priority of the projects but in such a manner that, on the average, this percentage, except in relation to education and agriculture, will not exceed the level which prevailed in 1966."

At last week's meeting of the Governors, I was especially gratified to hear, in several of the public speeches and in a number of private conversations, expressions of understanding regarding the U. S. balance of payments, of realization that our problem in this respect is also one of vital interest to the Bank and invididual countries, and of willingness to cooperate with the U. S. in finding ways to meet the problem. The Governors understand that we can afford to give assistance, bilaterally and through the Bank, in the form of real goods and services and not in the form of financial transfers which might be used to increase or maintain purchases from industrial countries in payments surplus with the U. S. or for other purposes damaging to the U. S. balance of payments.

Although not a part of the proposal before us today, I should nevertheless like to inform the Subcommittee of a new initiative related to the Ordinary Capital resources of the Bank of considerable interest for the U. S. balance of payments. As the Subcommittee is aware, procurement with Ordinary Capital funds may take place anywhere in the free world on an international competitive basis. There has been increasing concern in the Bank that this procedure has benefitted a number of the industrial capital-exporting nations out of proportion to the resources these same countries have made available to the Ordinary Capital in the form of long-term untied loans or bond-issues in their markets. At their meeting last week, the Governors instructed the Directors

to study this situation carefully, explore alternative courses of action, and adopt or propose corrective measures for implementation no later than January 1, 1968. A report of the Directors on this matter indicates that one of the basic principles underlying such measures must be the establishment of a link between the benefits which non-member countries derive from the Bank and the resources they provide, by limiting procurement to those countries making an adequate contribution to the resources of the Bank.

* * *

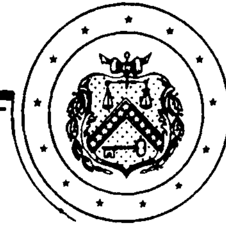
In concluding this statement, Mr. Chairman, let me stress the following thought:

If the Inter-American Development Bank is to continue to play a key role in this venture, and to take on the new challenge and responsibilities laid down by the Presidents last month at Punta del Este, it is essential that it have resources equal to the tasks it faces. That is the reason for the request we are making to replenish its Fund for Special Operations.

I urge that you act favorably on this legislation at an early date.

Thank you, Mr. Chairman.

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 4, 1967

FOR IMMEDIATE RELEASE

SECRETARY FOWLER CALLS FIRST MEETING OF THE JOINT COMMISSION ON THE COINAGE

Secretary of the Treasury Henry H. Fowler has called the first meeting of the Joint Commission on the Coinage for Wednesday, May 24, at 10:00 a.m. in Room 4121 of the Main Treasury Building, Washington.

Secretary Fowler is Chairman of the Commission, which was created by the Coinage Act of 1965 to advise the President, the Secretary of the Treasury and the Congress on implementation of the coinage program; needs of the economy for coins; standards for coins; technological developments and other considerations relevant to maintaining an adequate coinage system, minting of silver dollars and official maintenance of the price of silver.

F-907

Members of the Commission represent the public, the Executive Branch and the Congress. They are:

The Honorable Henry H. Fowler
Secretary of the Treasury
Chairman

The Honorable Alexander Trowbridge
Acting Secretary of Commerce

The Honorable Charles Schultze
Director, Bureau of the Budget

The Honorable Eva Adams
Director, Bureau of the Mint

The Honorable John Sparkman
Senate Banking and Currency Committee

The Honorable Wallace F. Bennett
Senate Banking and Currency Committee

The Honorable Wright Patman
House Banking and Currency Committee

The Honorable William B. Widnall
House Banking and Currency Committee

The Honorable John O. Pastore
United States Senate

The Honorable Alan Bible
United States Senate

The Honorable Thomas H. Kuchel
United States Senate

The Honorable Peter H. Dominick
United States Senate

The Honorable Ed Edmondson
United States House of Representatives

The Honorable Robert N. Giaimo
United States House of Representatives

The Honorable Silvio O. Conte
United States House of Representatives

The Honorable James F. Battin
United States House of Representatives

Mr. Julian B. Baird
St. Paul, Minnesota

Mr. Amon Carter, Jr.
Fort Worth, Texas

Mr. William C. Decker
New York, New York

Mr. Samuel M. Fleming
Nashville, Tennessee

Mr. Edward H. Foley
Washington, D. C.

Mr. Harry Francis Harrington
St. Louis, Missouri

Mr. Eugene S. Pulliam
Indianapolis, Indiana

Mr. Harry E. Rainbolt
Norman, Oklahoma

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TREASURY DEPARTMENT

WASHINGTON, D.C.

May 4, 1967

MEETING OF JOINT COMMISSION ON THE COINAGE

At the request of Chairman Patman of the House Banking and Currency Committee the first meeting of the Joint Commission on the Coinage has been changed to Friday, May 26 from Wednesday, May 24, 1967.

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F-907A

STATEMENT OF HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
ON S. 1352
SENATE BANKING AND CURRENCY COMMITTEE
MAY 4, 1967
10:00 A. M.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before this Committee in support of S. 1352, a bill which would provide a basis for dealing with our silver stocks in an orderly way. To lay a foundation for understanding the need for this legislation I should like, with the Committee's indulgence, to review briefly the history of our silver policy during the last few decades.

Under various acts and proclamations relating to newly mined domestic silver, and the Silver Purchase Act of 1934, we purchased, from 1934 to 1959, 3 billion ounces of silver at an average price of 58.7 cents per ounce. Until the second World War, world production of silver exceeded consumption. Thereafter, the trend reversed; however, it was not until 1959 that the combination of the needs of industry and others for silver and the Treasury's increased use of it for coinage began appreciably to exceed world production. The gap widened steadily, but for a time the Treasury was able to fill it by the sale in the market of silver from its non-monetized stockpile. The increased demand for silver for industrial and other use was in that way satisfied temporarily. By November of 1961, however, it became clear that the unrestricted sale from our non-monetized stockpile could not continue and on November 28 of that year President Kennedy, upon the Treasury's recommendation, directed that

the sale of this silver be discontinued and that our coinage needs be met by using silver released through the retirement of unfit silver certificates of the $5 and $10 denominations.

As you know, the Treasury's monetary use of silver was not limited to coinage. By law a portion of the silver purchased under the Purchase Acts was required to be used to back silver certificates, most of them of the $1 denomination, the only currency of that denomination then being issued. Also, to the extent that the public's needs for $1 bills did not require the use of all of our silver excess to our coinage needs, we had issued some silver certificates of the $5 and $10 denominations. By 1961, it had become evident, however, that our existing stocks of silver could not for long accomplish both purposes, that is, provide silver for coinage and backing for silver certificates. Consequently, the issuance of $5 and $10 silver certificates was stopped. This reduced the drain on silver but not enough. Therefore, the Treasury proposed and the Congress enacted the Act of June 4, 1963, Public Law 88-36, which accomplished two things. First, it authorized the Secretary, at his option, to redeem silver certificates with silver bullion instead of silver dollars. Our supply of silver dollars, which had not been minted since 1935, had dropped from more than 500 million at that time to 81 million by 1963. Second, the Act authorized the issuance of $1 Federal Reserve notes to be substituted for $1 silver certificates. In November of that year they were in production. From November of 1963 until October

of 1964 both $1 silver certificates and $1 Federal Reserve notes were issued. By September of 1964 we were producing enough $1 Federal Reserve notes to satisfy the needs of the public and in early October the issuance of silver certificates was stopped altogether.

In the meantime, because of the suspension of the unrestricted sale of our silver to the market, the market price of silver began to rise. From a price of $0.91 in 1961, it gradually rose until in 1963 it reached the price of $1.29+ per ounce, the monetary value of silver. We could not allow the market price to rise much above its monetary value because this would threaten the continued circulation of our silver coinage. It would become profitable to melt subsidiary coins for their silver content at about $1.40 an ounce. Therefore, beginning on July 23, 1963, the Treasury offered to the public silver bullion at its monetary value in exchange for silver certificates. It was not necessary to require, however, that silver certificates be presented physically in exchange for bullion. A simple procedure made it possible to obtain silver without doing so. Substantial amounts of unfit silver certificates were being retired each day, and an arrangement was made whereby persons wishing to acquire bullion would request the New York or San Francisco Federal Reserve Banks to purchase unfit silver certificates which were in the process of retirement and exchange them for bullion. This worked satisfactorily and as bullion was released an equivalent amount in unfit silver certificates was retired.

Until recently, the rate of retirement of unfit certificates exceeded bullion losses through this exchange method, and, since no new silver certificates were being issued, we were able to accumulate a supply of unencumbered silver in excess of 300 million ounces. During the last year and a half, however, that trend was reversed. Bullion losses began to exceed certificate retirements, and the sale of free silver at its monetary value, as authorized by the Coinage Act of 1965, coupled with the use of silver for coinage, has reduced our uncommitted silver to about 90 million ounces.

After silver ceased to be used for the purpose of backing new issuances of silver certificates, it became necessary to find a substitute for silver for coins. After an exhaustive study, we recommended and the Congress enacted the Coinage Act of 1965, which authorized the substitution of nickel and copper for silver in our dimes and quarters and reduced to 40% the silver content of the half dollar. This Committee and the Congress as a whole quickly recognized the urgency of this problem and acted responsibly and with alacrity.

We have now reached the point at which further action is necessary. At the present time, we have total stocks of silver of about 520 million ounces. Of this amount, almost 430 million ounces are required by law to be held as reserves for $555 million of silver certificates outstanding. This leaves only about 90 million ounces of so-called "free silver" available.

We are asking the Congress, therefore, to authorize the Secretary of the Treasury to write off an amount of outstanding silver certificates which he determines have been lost or destroyed, or are held in collections, and will never be presented for redemption. On the basis of past experience we know that not all of the outstanding silver certificates will be returned for redemption. Many of them have been lost or destroyed and many more can be expected to be held by collectors. Experience would indicate that at least $150 million could be written off immediately, thus freeing about 116 million ounces of silver. After further experience with the trend of retirements of silver certificates we might be able to write off an additional amount.

We are also asking the Congress to provide that holders of silver certificates would have one year from the date of the legislation to redeem their silver certificates for silver if they desire to do so. After one year silver certificates would continue to be legal tender on a par with Federal Reserve notes, but they could no longer be redeemed in silver. This is a perfectly reasonable provision which recognizes the fact that we cannot permit one form of currency to acquire a speculative value in excess of that of other forms, but at the same time provides an ample period during which those who presently hold silver certificates may acquire silver if they wish.

Since the passage of the Coinage Act of 1965, our mints have accomplished an amazing feat of producing in the short space of 21 months the unprecedented amount of 7.8 billion of the new subsidiary coins. At the

present time, we are approaching the limits of capacity of our facilities for storage of new coins available to be issued if needed. It is our belief that we probably have in circulation, in inventory, and in production, a sufficient amount of the new coins so that if the existing silver coins in circulation should begin to disappear, we would have enough coins to meet the country's needs. However, it is difficult to estimate the total needs of the country for coinage, and we feel that we can take no chances in this regard. Accordingly, we are continuing heavy production of the new coins at all of our mints to insure an amount of the new coins in circulation and in inventory which, according to every estimate, will be more than sufficient to meet any potential needs of the country for coinage.

The Joint Commission On The Coinage established under the Coinage Act of 1965, to which I will refer more later, will, of course, want to satisfy itself that we have and are making enough coins to meet the needs of the country. During this interim period, particularly between now and the end of this year, we must have available sufficient amounts of free silver to sell to industry at the monetary value of $1.29+ per ounce in order to maintain the market price within a narrow margin of this figure. Were we to stop selling silver, the market price could be expected to rise rapidly. Once it exceeded the price of $1.40 per ounce, the silver coins in circulation would have greater value as silver than as coins and would undoubtedly be withdrawn from circulation in substantial amounts.

The question may be asked as to whether the Administration, by asking for this legislation, is not invading the province of the Coinage Commission. In our opinion, this legislation is necessary to preserve the options which the Coinage Act of 1965 placed in the Coinage Commission. The Coinage Act instructed the Commission to review and make recommendations upon such matters as the needs of the economy for coins, the standards for the coinage, technological developments and the availability of various metals, renewed minting of the silver dollar, other considerations relevant to the maintenance of an adequate and stable coinage system, and "the time when and circumstances under which the United States should cease to maintain the price of silver." Enactment of S. 1352 will make it possible for the Coinage Commission to consider these and related questions in an objective way without being placed under the pressure of dealing with an emergency situation.

The President has recently announced his designation of members to serve on the Coinage Commission. The Congress had previously designated its representatives to serve on the Commission. It is planned that the Commission will be convened and commence its studies promptly. The first meeting of the Commission has been tentatively set for May 24, 1967. Early next year its findings and recommendations should be available to the Executive branch and to the Congress, and may serve as the basis for any ultimate legislation which may be needed with respect to silver and our coinage. In the meantime, the bill before you will make it possible

to maintain the status quo.

Before closing I should like to refer to one additional issue which has been raised in connection with this proposed legislation. That is the issue of setting aside silver for the national stockpile of strategic metals. Since it is necessary at present for us to continue to hold the price of silver at $1.29 in order to protect our coinage, and since we will remain obligated for a period of one year to redeem all silver certificates presented for redemption, we cannot transfer silver to the stockpile immediately. However, we are as certain as we can be that a very large percentage of the outstanding silver certificates will never be presented for redemption with the result that we will have at the very least 200 to 250 million ounces of silver remaining after one year, when we will no longer be obligated to maintain silver as a reserve for silver certificates. Therefore, we would have no objection to an amendment to S. 1352 which would provide for the transfer at the end of one year of 165 million ounces of silver to the national stockpile. I have attached to my statement a draft amendment which would accomplish this purpose. This amendment is identical with that adopted by the House Banking and Currency Committee this week.

I strongly urge you to report favorably on this bill and to recommend its enactment as being in the public interest.

Attachment

Amendment to S. 1352
to provide for transfer of silver
to the stockpile

Page 2, at the end of line 5 insert:

"Upon the expiration of one year after the date of enactment of this Act, the Secretary of the Treasury shall transfer to the General Services Administration not less than 165,000,000 fine troy ounces of silver as a reserve for national defense purposes. The disposition of such silver shall be governed by section 5 of the Strategic and Critical Materials Stockpiling Act, as amended (53 Stat. 811; 50 U.S.C. 98a-h). "

Page 2, line 12, immediately after "States" insert:

"(other than silver held subject to section 5 of the Strategic and Critical Materials Stockpiling Act)".

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Analysis of Changes in U. S. Treasury Silver Stocks Since 1958
(In millions o[illegible] troy ounces)

Calendar Year	Silver used in coinage	Bullion exchanged for silver certificates	Silver dollars paid out	Other[1] causes of change	Total change in silver stocks	Silver[2] stock at end of period	Memorandum: Bullion equivalent of silver certificates[3] at end of period: In circulation	Held by F.R. Banks and agents	Total
1958	-38.2		-12.7	+142.8	+91.9	2,106.2	1,683.5	188.3	1,871.8
1959	-41.4		-15.7	+10.8	-46.3	2,059.9	1,651.1	209.3	1,860.4
1960	-46.0		-16.2	-5.5	-67.7	1,992.2	1,632.0	215.9	1,847.9
1961	-55.9		-23.8	-49.8	-129.5	1,862.7	1,616.3	191.2	1,807.5
1962	-77.4		-27.4	+10.4	-94.4	1,768.3	1,536.0	177.5	1,713.5
1963	-111.5	-19.0	-51.5	-2.0	-184.0	1,584.3	1,440.4	105.4	1,545.8
1964	-203.0	-141.4	-19.8	-2.1	-366.3	1,218.0	952.3	82.1	1,034.4
1965	-320.3	-77.4	--	-16.7	-414.4	803.6	503.4	24.7	528.1
1966: Jan.	-14.9	-3.3	--	-.9	-19.1	784.5	486.4	29.4	515.8
Feb.	-8.2	-9.5	--	-1.5	-19.2	765.3	478.3	26.0	504.3
March	-5.7	-11.1	--	-.1	-16.9	748.4	471.0	20.3	491.3
April	-3.7	-12.6	--	-3.8	-20.1	728.3	461.3	19.7	481.0
May	-1.4	-16.4	--	-2.3	-20.1	708.2	456.4	13.0	469.4
June	-2.5	-15.1	--	-1.2	-18.8	689.4	449.8	13.4	463.2
July	-1.3	-12.4	--	-.5	-14.2	675.2	444.8	13.4	458.2
August	-2.7	-18.0	--	-2.2	-22.9	652.3	440.4	12.3	452.7
Sept.	-3.4	-17.0	--	-.8	-21.2	631.1	437.8	10.2	448.0
Oct.	-4.2	-9.1	--	+.2	-13.1	618.0	436.3	7.2	443.5
Nov.	-2.3	-11.1	--	-.8	-14.2	603.8	433.9	5.9	439.8
Dec.	-3.4	-4.9	--	-1.3	-9.6	594.2	431.8	6.8	438.6
1966	-53.9	-140.6	--	-14.9	-209.4	594.2	431.8	6.8	438.6
1967: Jan.	-3.9	-20.0	--	-2.3	-26.2	568.0	427.9	7.9	435.8
Feb.	-4.5	-10.4	--	-3.0	-17.9	550.1	426.5	6.8	433.3
Mar.	p/-6.0	p/-13.0	--	p/+.6	-18.4	531.7			

1/ Includes purchases, lend-lease returns, net sales and transfers to Government agencies, sales to industry during 1959-1961, variation in the amount of subsidiary coin and bullion held in the Treasurer's General Account, and a residual discrepancy arising from the fact that coinage and bullion exchanges are shown here on a Mint accounting basis while the total change in silver stocks is shown on the more widely available Treasury Daily Statement basis. 2/ As shown in the Treasury Daily Statement. The total includes approximately 64.8 million ounces held by certain agencies of the Federal Government. 3/ Issued after June 30, 1929. p/ Preliminary.

Source: Treasury Daily Statements, Circulation Statements and unpublished material.

TABLE 1.--Estimated Free World Silver Consumption and Production, 1949-66

(In millions of fine troy ounces)

Calendar year	Industry and the arts (1)	Coinage			Total consumption (3)	New production (4)	Indicated deficit (-) (5)	Deficit excluding all coinage demand (-) (6)
		U.S.A.	Coinage foreign (2)	Total coinage				
1949-53 average...	153.1	36.5	48.2	84.7	237.8	173.9	-63.9	20.8
1953-57 average...	190.1	37.5	36.0	73.5	263.6	191.0	-72.6	.9
1958..............	190.5	38.2	41.3	79.5	270.0	205.8	-64.2	15.3
1959..............	212.9	41.4	45.0	86.4	299.3	188.4	-110.9	-24.5
1960..............	224.6	46.0	57.9	103.9	328.5	206.9	-121.6	-17.7
1961 (rev.).......	239.5	55.9	81.2	137.1	376.6	203.2	-173.4	-36.3
1962 (rev.).......	258.5	77.4	50.2	127.6	386.1	209.0	-177.1	-49.5
1963 (rev.).......	260.7	111.5	54.9	166.4	427.1	214.6	-212.5	-46.1
1964 (rev.).......	304.2	203.0	64.1	267.1	571.3	210.7	-360.6	-93.5
1965..............	346.6	320.3	55.3	375.6	722.2	215.3	-506.9	-131.3
1966..............	356.5	53.9	53.8	107.7	464.2	231.0	-233.2	-125.5

Source: Columns (1) and (2) are from Handy and Harman, Annual Reviews. Column (4) is derived from the world totals published in the Annual Reports of the Director of the Mint and compiled by the Bureau of Mines, except for 1966 which is from Handy & Harman's 1966 Annual Review. Production for the following countries has been subtracted from the world totals: Czechoslovakia, East Germany, Hungary, Rumania, Poland, U.S.S.R., China, and North Korea.

Table 3

Silver Certifica Small Size
Issued, Redeemed, and Outstanding

Calendar Year	Issued		Redeemed		Outstanding End of Period	
	Equivalent of ounces @ 1.29+	Amount	Equivalent of ounces @ 1.29+	Amount	Equivalent of ounces @ 1.29+	Amount
1961	970,360,876	$1,254,608,000	988,842,671	$1,278,503,654	1,817,424,234	$2,349,801,028
1962	891,018,563	1,152,024,000	987,827,293	1,277,190,842	1,720,615,505	2,224,634,186
1963	741,868,876	959,184,000	907,975,733	1,173,948,421	1,554,508,648	2,009,869,765
*1964	345,089,250	446,176,000	857,322,949	1,108,457,953	1,042,274,949	1,347,587,812
1965			510,502,262	660,043,328	531,772,687	687,544,484
1966						
January			12,003,637	15,519,854	519,769,050	672,024,630
February			12,179,939	15,747,800	507,589,111	656,276,830
March			14,356,287	18,561,664	493,232,824	637,715,166
April			10,465,266	13,530,849	482,767,558	624,184,317
May			10,350,312	13,382,222	472,417,246	610,802,095
June			6,758,200	8,737,875	465,659,046	602,064,220
July			5,462,484	7,062,606	460,196,561	595,001,614
August			6,109,509	7,899,163	454,087,052	587,102,451
September			4,633,166	5,990,356	449,453,886	581,112,095
October			4,667,987	6,035,377	444,785,899	575,076,718
November			2,711,123	3,505,290	442,074,777	571,571,428
December			2,112,320	2,731,080	439,962,457	568,840,348
Total - 1966			91,810,230	118,704,136	439,962,457	568,840,348
1967						
January			2,707,306	3,500,355	437,255,151	565,339,993
February			3,164,357	4,091,290	434,090,794	561,248,703
March			2,239,816	2,895,924	431,850,978	558,352,779

*Issue of silver certificates discontinued October 1964.

Source: Currency ledgers in U. S. Treasurer's Office.

Table 4

Balance of Unobligated Silver

	Fine troy ounces
1963	
Dec. 31	9,316,071
1964	
Jan. 31	21,782,451
Feb. 28	34,858,034
March 31	11,955,943
April 30	41,838,514
May 28	36,622,914
June 30	30,372,231
July 31	47,389,683
Aug. 31	41,193,304
Sept. 30	41,841,469
Oct. 31	72,126,924
Nov. 30	111,076,708
Dec. 31	150,279,688
1965	
Jan. 29	173,453,081
Feb. 28	207,456,180
March 31	237,534,851
April 30	272,833,253
May 28	272,630,144
June 30	295,181,641
July 31	301,790,451
Aug. 31	325,158,600
Sept. 30	310,038,501
Oct. 29	298,109,717
Nov. 30	282,281,615
Dec. 31	271,845,717

	Fine troy ounces
1966	
Jan. 31	264,763,644
Feb. 28	257,693,663
March 31	255,174,576
April 29	245,505,248
May 31	235,815,939
June 30	223,763,203
July 29	215,004,080
Aug. 31	198,172,851
Sept. 30	181,687,234
Oct. 31	173,185,839
Nov. 30	161,707,676
Dec. 30	154,283,359
1967	
Jan. 31	130,757,145
Feb. 28	116,043,701
March 31	99,851,803

Source: Daily Treasury Statements

United States currency written off pursuant to
Old Series Currency Adjustment Act, approved June 30, 1961
Public Law 87-66

Kind of Currency	Cumulative total issued	Written Off October 1961	Written Off August 1962	Written Off November 1964	Written Off June 1966	Written Off Total	Outstanding Dec. 31, 1966
Treasury Notes of 1890	$447,435,000	$1,000,000		$100,000	$31,000	$1,131,000	$10,534
Gold Certificates issued prior to July 1, 1929	13,447,187,300		$9,000,000	6,000,000	1,600,000	16,600,000	745,429
Gold Certificates issued July 1, 1929 and subsequent thereto, except Series 1934	2,591,580,000				7,350,000	7,350,000	3,496,690
Silver Certificates issued prior to July 1, 1929	12,374,855,800		15,000,000	14,500,000	280,000	29,780,000	140,814
National Bank Notes issued prior to July 1, 1929	14,081,209,155		15,000,000	13,500,000	420,000	28,920,000	210,405
Federal Reserve Bank Notes issued prior to July 1, 1929	761,944,000		1,000,000	1,000,000	63,000	2,063,000	30,442
Federal Reserve Notes issued prior to July 1, 1929	19,971,560,000		18,000,000	14,000,000	2,450,000	34,450,000	1,193,087
United States Notes issued prior to July 1, 1929	8,903,427,808			24,000,000	142,000	24,142,000	72,411
Total	72,579,[illegible]	1,000,000	58,000,000	73,100,000	12,336,000	144,436,000	5,899,812

Source: Currency Ledgers U. S. Treasurer's Office.

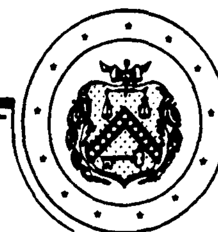
Table 6

United States Silver consumption and sources of supply
Calendar Years of 1949 through 1966
(In millions of fine troy ounces)

	Average, 1949 - 58	1959	1960	1961	1962	1963	1964 (Rev.)	1965	1966
Industrial consumption	97.4	101.0	102.0	105.5	110.4	110.0	120.5	137.0	150.0
Less: New production	38.1	23.0	36.8	34.9	36.3	35.0	37.0	39.0	42.0
Difference	59.3	78.0	65.2	70.6	74.1	75.0	83.5	98.0	108.0
Add: U. S. coinage	36.6	41.4	46.0	55.9	77.4	111.5	203.0	320.3	53.9
Equals: Indicated deficit	95.9	119.4	111.2	126.5	151.5	186.5	286.5	418.3	161.9
Accounted for by -									
Net commercial imports	-80.9	-55.3	-29.5	-9.1	-63.3	-32.5	+55.7	-12.2	+22.3
Lend-lease, returns (-)	-30.5	-45.0	-15.7	-10.4	-8.3	....	....	....	....
Change in Treasury stocks	+15.4	-46.3	-67.7	-129.5	-94.4	-184.0	-366.3	-414.4	-209.4
Total accounted for	-96.0	-146.6	-112.9	-149.0	-166.0	-216.5	-310.6	-426.6	-187.1
Discrepancy (minus values imply net additions to domestic inventory)	-.1	-27.2	-1.7	-22.5	-14.5	-30.0	-24.1	-8.3	-25.2

Source: Consumption, coinage, and production data from Annual Reports of the Director of the Mint, except for 1966 when consumption and production are from Handy & Harman's 1966 Annual Review. Net commercial imports from Handy & Harman's Annual Reviews and Minerals Yearbooks. Lend-lease returns from Annual Reports of the Director of the Mint. Change in Treasury silver stocks from Treasury Daily Statements.

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

May 5, 1967

PRELIMINARY RESULTS OF TREASURY REFUNDING

Preliminary figures show that $11,718 million, or 52.9%, of the $22,142 million securities of the five issues eligible for exchange have been exchanged for the two new notes included in the current refunding offer. About $10,379 million, or 92.9% of the $11,177 million outstanding, were exchanged by holders of securities due May 15 and June 15, and $1,339 million, or 12.2% of the $10,965 million outstanding, were exchanged by holders of securities due August 15.

Subscriptions total $6,431 million for the 4-1/4% notes of Series C-1968 and $5,287 million for the 4-3/4% notes of Series B-1972, of which $2,001 million for the 4-1/4% notes and $2,711 million for the 4-3/4% notes were received from the public.

Of the eligible securities held outside the Federal Reserve Banks and Government accounts $3,429 million, or 81.5 % of an aggregate of $4,207 million, of May 15 and June 15 maturities and $1,283 million, or 26.5 % of an aggregate of $4,839 million, of August 15 maturities were exchanged.

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

ELIGIBLE FOR EXCHANGE			SECURITIES TO BE ISSUED				
			4-1/4%	4-3/4%			
	Date		Notes	Notes		UNEXCHANGED	
Securities	Due	Amount	C-1968	B-1972	Total	Amount	%
4-1/4% notes, D-1967	5/15/67	$ 9,748	$5,793	$3,493	$ 9,286	$ 462	4.7
2-1/2% bonds, 1962-67	6/15/67	1,429	638	455	1,093	336	23.5
Total May & June maturities		$11,177	$6,431	$3,948	$10,379	$ 798	7.1
PREREFUNDING							
5-1/4% ctfs., A-1967	8/15/67	5,919		293	293	5,626	95.0
3-3/4% notes, A-1967	8/15/67	2,929		833	833	2,096	71.6
4-7/8% notes, E-1967	8/15/67	2,117		213	213	1,904	89.9
Total prerefunding maturities		$10,965		$1,339	$1,339	$9,626	87.8
Grand Totals		$22,142	$6,431	$5,287	$11,718	$10,424	47.1

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

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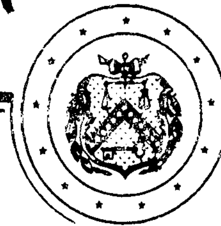
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 5, 1967

FOR IMMEDIATE RELEASE

TREASURY SECRETARY FOWLER NAMES ROBERT WILLIAM (BOB) FELLER AS NEW SAVINGS BONDS CHAIRMAN FOR THE STATE OF OHIO

Robert William (Bob) Feller, former big league baseball star and now an insurance and investment consultant of Cleveland, Ohio, was today appointed by Treasury Secretary Henry H. Fowler as volunteer State Chairman for the Savings Bonds Program in Ohio.

Mr. Feller began his professional baseball career in 1935 with the Cleveland Indians. He retired at the end of the 1956 baseball season. During his long career, he pitched three "no-hitters".

He was voted the Indians' "Man of the Year" twice, and played on 9 All-Star teams, including the Service All-Stars of 1942. He also participated in two World Series. His record of 348 strikeouts in one season is still the American League record. He was inducted into Baseball's Hall of Fame in July 1962.

During World War II, he served in the Navy -- enlisting two days after Pearl Harbor attack. Most of his 44 months in the Navy were spent on board the USS Alabama, where he earned 8 battle stars in the gunnery department.

At the time of his retirement in 1956, he purchased an insurance agency in Cleveland and is still working in this field as an independent insurance and investment consultant.

Mr. Feller has written two books and numerous articles for newspapers and magazines and has appeared frequently on radio and television.

He has received honorary degrees from Rollins College, Winter Park, Fla.; Morningside College, Sioux City, Iowa; and the University of Dubuque, Dubuque, Iowa.

Mr. Feller married Virginia Winther of Waukegan, Illinois, in 1943. They have three sons, Steve, 21; Marty, 19; and Bruce, 16. The Fellers have lived in Gate Mills, Ohio, since 1948.

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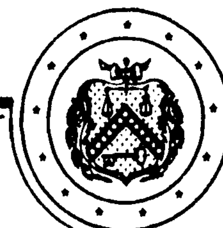
TREASURY DEPARTMENT



WASHINGTON, D.C.

R RELEASE 6:30 P.M.,
nday, May 8, 1967.

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 February 9, 1967, and e other series to be dated May 11, 1967, which were offered on May 3, 1967, were ened at the Federal Reserve Banks today. Tenders were invited for $1,300,000,000, thereabouts, of 91-day bills and for $1,000,000,000, or thereabouts, of 182-day lls. The details of the two series are as follows:

NGE OF ACCEPTED MPETITIVE BIDS:	91-day Treasury bills maturing August 10, 1967		:	182-day Treasury bills maturing November 9, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.079	3.644%	:	98.069	3.820%
Low	99.069	3.683%	:	98.056	3.845%
Average	99.072	3.671% 1/	:	98.063	3.831% 1/

98% of the amount of 91-day bills bid for at the low price was accepted
13% 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	$ 18,998,000	$ 8,998,000	:	$ 12,307,000	$ 2,307,000
New York	1,636,339,000	889,795,000	:	1,333,556,000	736,706,000
Philadelphia	26,007,000	13,707,000	:	20,880,000	6,880,000
Cleveland	39,084,000	38,574,000	:	33,437,000	23,387,000
Richmond	14,339,000	14,339,000	:	2,529,000	2,529,000
Atlanta	68,337,000	47,477,000	:	29,457,000	20,735,000
Chicago	178,127,000	123,927,000	:	181,916,000	107,444,000
St. Louis	49,464,000	42,263,000	:	24,205,000	21,831,000
Minneapolis	17,630,000	12,290,000	:	11,699,000	9,529,000
Kansas City	29,370,000	27,725,000	:	10,070,000	9,970,000
Dallas	25,409,000	15,209,000	:	18,571,000	11,701,000
San Francisco	121,240,000	66,460,000	:	108,319,000	47,079,000
TOTALS	$2,224,344,000	$1,300,764,000 a/		$1,786,946,000	$1,000,098,000 b/

Includes $255,415,000 noncompetitive tenders accepted at the average price of 99.072
Includes $104,367,000 noncompetitive tenders accepted at the average price of 98.063
These rates are on a bank discount basis. The equivalent coupon issue yields are 3.77% for the 91-day bills, and 3.97% for the 182-day bills.

TREASURY DEPARTMENT
Washington

FOR USE IN MORNING NEWSPAPERS
OF WEDNESDAY, MAY 10, 1967

REMARKS BY THE HONORABLE TRUE DAVIS
ASSISTANT SECRETARY OF THE TREASURY
AND
UNITED STATES EXECUTIVE DIRECTOR
OF
THE INTER-AMERICAN DEVELOPMENT BANK
BEFORE
THE INTERNATIONAL TRADE CLUB
OF
GREATER KANSAS CITY
COMMERCE TOWER, KANSAS CITY, MISSOURI
TUESDAY, MAY 9, 1967, 8:00 P.M., CDT

OPPORTUNITIES AND RISKS IN TRADING AND FINANCING WORLD PROGRESS

It is always a pleasure for me to meet with businessmen who are engaged in trade, who are concerned with trade, and who realize the importance of trade to a nation's economy and a people's welfare. The free flow of trade -- of a country's products and services -- is essential for a country's economic growth and development. Without this -- sustained economic growth and development -- no country can long maintain a decent standard of living for its people, or raise the standard of living so its people may enjoy the technological benefits of our age.

Our job -- yours and mine -- is both challenging and exhilarating. For we are building bridges between peoples and countries over which may pass not only a free flow of goods to enrich the human body, but also a free flow of ideas to enrich the human mind and spirit. We should never lose sight of the fact that wherever there flow between countries unimpeded rivers of commerce, nurtured by common interests and mutual goals, there also flow rivers of communication that develop friendship between peoples, understanding between diverse minds, and respect and tolerance for each other's culture. The tangible goods and the intangible ideas flow together, for they are inter-related. The suppression of one, or the nurturing of one, affects the life-flow of the other.

There are many ingredients necessary for healthy trade growth, the most important of which is peace. More than a hundred years ago, Ralph Waldo Emerson, in discussing trade and conditions which nurture its growth, said that "trade is a plant which grows wherever there is peace, as soon as there is peace, and as long as there is peace." Since the end of World War II we have had two decades of relative peace. The growth and expansion of world trade during this period is unprecedented in the long history of man. Ten years after the end of World War II world exports amounted to $103.6 billion. Last year, two decades later, world exports had climbed to $204 billion, almost doubling those of 1956.

This clearly substantiates Emerson's statement. Yet when we examine these world trade figures we find some disquieting facts. We find, for instance, that the share of the low-income countries in the world exports decreased from 24 to 19 percent during the period 1956-66. And of all the Latin American countries, only two, Peru with a 14 percent increase and Mexico with a 7 percent increase, substantially improved their position in the world of foreign trade and commerce. Peace alone, then, does not insure the trade growth or development of a country. There are other essential ingredients -- such as capital for investment in plants and equipment, technical knowledge, a high degree of literacy and education, the absence of discriminating tariff barriers inhibiting a country's flow of goods and services, and a desire, above all else, on the part of wealthy, industrialized nations of the world to assist less developed countries so they may compete more evenly, and more equitably share the fruits of man's achievements.

Our thoughts at the moment are riveted South -- to Latin America, where 240 million people now reside, and where, by the year 2000 if the present population rate continues, some 625 million people will live. How they live is of vital importance to the peace and stability of our Western Hemisphere.

For too long the people in most Latin American countries have been condemned to underdevelopment. Adjacent to portions of new cities that have witnessed an architectural renaissance are some of the worst slums in the world. The disease of illiteracy afflicts tens upon tens of millions of people. Unemployment, which breeds misery and anguish, exists in the largest cities and the smallest villages. Not only is the potential of human resources not achieved throughout the Americas, but much of their natural resources are undeveloped.

Conditions in many countries until recently prevented political stability and political continuity -- the *sine qua non* of sustained economic progress.

Last month it was my good fortune to accompany President Johnson to Punta del Este where he met with other Presidents of the Americas. The problem they faced, conditioned by an air of urgency and a feeling that time is running out, was to forge a plan of *united* action that would accelerate the speed of social reform and the pace of economic development. Toward this end, they forged the "Declaration of the Presidents," which I would like to briefly summarize for you in light of its significance and the participating role that we will play. The Presidents agreed:

1. To create and support a Latin America Common Market, which will facilitate the free movements of goods and services;

2. To expand Latin American trade to other countries of the world;

3. To lay the physical foundations for Latin American economic integration through multi-national projects that will bind the nations of the hemisphere in great transportation, power, and river developments, opening the way for the movement of both people and goods throughout the continent;

4. To modernize living conditions of rural populations and substantially increase food production to feed their expanding population;

5. To vigorously promote education for development, expand programs for improving the health of Latin Americans, and harness science and technology for the services of all; and

6. To eliminate unnecessary military expenditures.

Creating a Common Market for Latin America will not be an easy task. It will begin in 1970. It will take another fifteen years of patient negotiation before barriers are removed to permit the unimpeded flow of goods, capital, manpower, and technology so essential for the economic progress of all countries.

During the past ten years Latin America's share of world commerce has steadily declined, while Africa's has increased. The value of Latin American exports during the same period only grew at an average annual rate of 3.9 percent, while the average yearly growth rate for world exports was twice as great. On the one hand, the need for development money in Latin America rapidly increases, while income from exports, which are vital to every country's balance of payments position, continues to lag.

As we increase our trade to Latin America and as Latin America increases trade among themselves and between us and other highly developed nations there will arise many problems and conflicting opinions in the complicated area of tariff and trade. Concessions will have to be made by all countries -- including us. We have already committed ourselves to exploring with other industrialized countries the possibilities of temporary preferential tariff advantages not only for Latin America but also for other developing countries in the markets of industrialized nations. Traditional nationalistic barriers in the Americas will also have to give way to regional and hemispheric goals. The wealthier countries of the world will have to work together to help developing countries increase their trade and accelerate their rate of economic growth.

The renaissance Latin Americans must undertake in what President Johnson calls the "Decade of Urgency" staggers the imagination. Each year over a million new homes must be built. At least 140 million new jobs must be created. Hundreds of thousands of new classrooms must be constructed. Somehow there must be trained and educated hundreds of thousands of teachers, technicians, doctors, dentists, agronomists, and other scientists. Although the challenges are formidable, they are not overwhelming. There is not one problem we in the Americas face that cannot be overcome as long as we are unswerving in our resolution. The assistance that we in the United States can render will be useful, as President Johnson emphasized, only as it reinforces the determination of Latin Americans and builds on their achievements. I was particularly impressed with a phrase used by President Johnson at Punta del Este, when he said that "this is not a job for sprinters, but long distance runners."

The contemplated view of future plans must be correlated with achievements of the past. Since the beginning of the Alliance for Progress in 1961, these achievements have benefited the economy of individual countries and millions of

Latin Americans. We agreed, in 1961, to provide Latin America with a billion dollars a year in grants, food, and technical assistance. We also promised to promote foreign investments in those countries that promised to undertake necessary financial and social reforms and mobilize their resources for essential economic development. We undertook these commitments at a time, you will recall, when Latin America seemed on the verge of violent social and political revolution, when Communist activity disrupted governments and spread terror and violence among millions of people, when riots were regular occurrences, and money fled the countries for safe havens abroad -- money that should have remained in Latin America to help its economic development.

A few statistics will illustrate the extent and type of achievements accomplished by our programs. In the area of education -- 28,000 classrooms were built, 160,000 teachers trained, and more than 15 million textbooks distributed. Some 13 million school children and 3 million pre-school youngsters participated in school lunch programs. In the area of housing -- 350,000 units were built, 2,000 rural wells dug, and over a thousand portable water supply systems built to benefit 20 million people. In the area of public health -- deaths caused by malaria fever dropped in 10 countries from over 10,000 to less than 3,000 in only three years' time. Today over 100 million people are protected from malaria. More than a thousand health centers, including hospitals and mobile medical units, are in operation. In the agricultural area -- 16 countries passed legislation dealing with vitally needed land reforms. With our assistance over a million acres of land have been irrigated, and over a hundred thousand acres of land reclaimed. More than 700,000 agricultural loans have directly benefited more than 3-1/2 million people.

The Inter-American Development Bank -- the Bank of the Alliance for Progress, the Bank of Integration -- is the institution through which we have channeled, and will continue to channel, much of our financial assistance to Latin America. The Bank has seven directors, six of which are elected by Latin American members. The United States appoints its Executive Director, and in this capacity I have served since being nominated by President Johnson and confirmed by the Senate last year. The Board of Directors take an active, direct, and continuous interest in the affairs of the Bank. As of April 15, it had authorized from all available resources 407 loans totaling over $2 billion. These loans cover the broadest spectrum of our activities throughout Latin America -- agriculture, education, health, industry and mining, water and

sewerage, housing, transportation and electric power. In short, the Inter-American Development Bank is the most comprehensive lending institution which represents to our Latin American friends their bank for the Alliance for Progress.

Within the Bank itself there are two types of lending activities: First, we have loans from the Ordinary Capital Resources which are similar to commercial bank loans, with interest rates of 6 percent plus and for normal length of duration as found in commercial banking circles; then we have the Fund For Special Operations which was established as the so-called "soft loan window" of the Bank. It has long been amply clear that the less developed countries cannot assume on conventional banking terms the capital required to advance their development. The problems of economic and social development are too vast and the resource transfers required from the more-developed to the less-developed countries are too great. This has been recognized in our bilateral assistance programs, which have long provided the more liberal terms appropriate for long-term development. These loans bear interest rates of from 3 to 4 percent with longer periods of time for repayment.

As I mentioned earlier, the Bank has made over 400 loans totaling more than $2 billion. One of the most effective means by which Latin Americans have been hastening their own technological development, economic growth, and social progress has been through the wise application of these loans. But these bank loan figures, however, do not tell the whole story -- for they helped finance projects that cost over $5 billion. The difference of some $3 billion represents the amount Latin Americans have invested in their own progress. Of this total expenditure of more than $5 billion, over $2-1/2 billion went into developing agriculture, industry and mining. Expenditures for electric power, housing, and water and sewerage systems accounted for almost another $2 billion. The remainder was channeled into education, pre-investment and export financing.

Through 1964 we contributed to the Social Progress Trust Fund of the Inter-American Development Bank $525 million, and another $150 million to its Fund for Special Operations.

In 1965 -- because of the success of the Bank's operations and the pressing need for more capital to expand its level of activities -- the Congress authorized a U. S. contribution of $250 million a year to the Bank's FSO through 1967. Only last week Treasury Secretary Fowler and I appeared before a Congressional committee in support of the President's desire to increase our aid to the Bank by $50 million a year over and above the $250 million annual level of our contributions in the past. These increased funds can help finance a portion of the cost of multi-national projects, such as hydro-electric plants, modern communication networks, bridges, dams and roads -- all of which are essential to bring Latin Americans closer together as partners in hemispheric progress.

The United States contribution of $900 million over a three-year period stands in the ratio of three to one to the proposed contribution of the Latin American members. This is in contrast to the ratio of five to one that applied in the last increase of FSO resources agreed upon in 1965, and the ratio of eleven to one when the Bank began.

Over the past six years, as contributions to the Bank by partners and non-partners increased, disbursement of loans and technical assistance authorizations have steadily increased. Latin American countries have consistently contributed more of their own resources to the execution of development projects. By so doing, their governments have intensified their own involvement with the future destiny of their people. If the remarkable achievements of the past six years are to be accelerated to keep pace with the future's essential requirements, it is imperative that the Inter-American Development Bank obtain additional capital resource contributions from other countries of the free world, and by borrowing in the world's capital market through short and long-term bond issues. This will not be especially easy, since the competition among developing nations for capital is vigorous. It increases, moreover, in proportion to a country's desire to sustain achievements already made, support their investments that made these achievements possible, and build upon them. More and more, Latin America will be looking to private capital investment from the industrialized countries of the world.

What has our contribution been to Latin America in terms of dollars since the Alliance for Progress started a little more than six years ago? We pledged to invest a billion dollars a year -- and we have kept our pledge to our neighbors. Most of this money went out through AID -- United States Agency for International Development -- in the form of bilateral assistance programs. These loans provided more liberal terms appropriate for long-term social and economic development.

When the Alliance for Progress was created, we set as a target goal $300 million of new U. S. private investment annually in Latin America. Our private capital investment since 1962, when foreign investment had reached a ten year all-time low, has paralleled the increased aid to Latin America through international and U. S. Government financial agencies. As political stability and economic sensibility in Latin America prevailed over economic indifference and political apathy, creating an atmosphere of confidence and integrity, foreign U. S. investments gradually increased.

The evidence from actual performance is no less dramatic. During the past six years the gross investment of the Latin countries approximated $91 billion, of which $80 billion -- about 88 percent -- came from within Latin America itself. It is easy to forget that the Latin countries are carrying by far the greater share of the burden of their own development. It could not and should not be otherwise, as the Latin American Presidents were clearly aware at the Summit Meeting.

Our Government, as I earlier emphasized, not only will continue to invest in Latin America's future -- which is an investment in the peace and stability of the Western Hemisphere -- but will increase this investment in the years ahead. The important partner to Government investment is private investment. One cannot do the job alone, nor can one be substituted for the other. Each type of investment complements the other, and both types are vitally necessary. Conditions during the past five years, as well as the philosophy underwriting agreements reached by the Presidents of all the Americas at Punta del Este last month, clearly indicate to me that the climate is propitious for substantially increased private investments through Latin America -- and we should take advantage of this opportunity now.

Looking back from where we are now, I would assume that 150 years ago, the Mississippi Valley and the Amazon Valley offered the same opportunity with the same risk of investment.

History has shown that the investment placed in the Mississippi Valley made a handsome profit for the investors who were willing to take the risk. Now the Amazon Valley -- as well as other parts of the Americas -- is potentially ready to return a handsome profit to those who are willing to invest there.

Businessmen now recognize, I believe, that private enterprise, capably managed and operated for both the benefit of individual Latin American inhabitants of a country and for company stockholders, can flourish and prosper under a wide variety of socialistic governments. Enlightened Latin American leaders, deeply concerned with increasing the rate of social and economic development in their countries, are just as conscious as enlightened American businessmen of the mutuality of interests that unite them. Both are working toward common goals. A prosperous, thriving economy now is essential for future peace and prosperity. To the extent that private capital creates and nurtures economic growth and development, to that extent does it enrich the institution of private enterprise and strenghten the foundations upon which it rests.

The United States will maintain its $300 million annual contribution for the next three years to the IADB's Fund for Special Operations -- in addition to increased contributions in other areas of our economic and cultural partnership. At the same time, we expect other industrialized nations of the world to increase their aid to Latin America, as well as other developing nations -- both in the form of direct aid to individual countries and in the form of capital resources to regional development banks.

It is my firm conviction, as well as our Government's, that countries which are accumulating savings in the form of reserves should, if they are to accept their proper responsibilities to the welfare of mankind, permit public and private capital to flow to the less developed countries in reasonable magnitude and on reasonable terms. The industrialized countries should share their surpluses by giving -- as the United States has -- multilateral and regional financing institutions liberal access to their capital markets.

The richer nations of the world not only must continue aid to Latin America, but the degree of their aid must be appreciably increased if we are to accelerate the pace of technological and economic development. And accelerate we must in the years ahead in light of anticipated population increases and the pleas of human beings for more help so that they can ultimately better help themselves.

We are so closely allied in the fraternity of nations and the brotherhood of mankind that the weakness of one country, no matter how small, directly or indirectly affects the strength of all. The free world's ability to act in unison and harmony, to bring its moral strength and purpose of conviction to bear on the resolution of international problems, ultimately rests on the physical strength of every country and the moral strength of its people. To the extent that richer countries accelerate economic growth and development in underdeveloped and developing countries, to that extent do we strengthen the innumerable ties that unite us as free sovereign nations and as free human beings.

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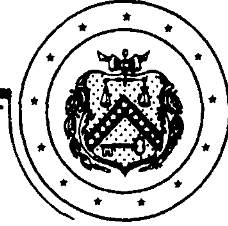
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 10, 1967

FOR IMMEDIATE RELEASE

TREASURY MARKET TRANSACTIONS IN APRIL

During April 1967, market transactions in direct and guaranteed securities of the government for Government investment accounts resulted in net purchases by the Treasury Department of $180,032,900.00.

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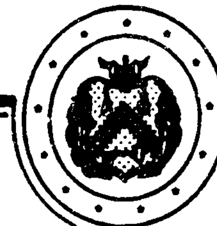
TREASURY DEPARTMENT



WASHINGTON, D.C.
May 10, 1967

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 May 18, 1967, in the amount of $2,302,320,000, as follows:

91-day bills (to maturity date) to be issued May 18, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated February 16, 1967, and to mature August 17, 1967, originally issued in the amount of $1,001,414,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated May 18, 1967, and to mature November 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, May 15, 1967. 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-911

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 May 18, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 18, 1967. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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TREASURY DEPARTMENT
Washington

FOR RELEASE IN MORNING NEWSPAPERS
OF FRIDAY, MAY 12, 1967

REMARKS BY THE HONORABLE STANLEY S. SURREY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
AMERICAN PENSION CONFERENCE
HOTEL NEW YORKER, NEW YORK, NEW YORK
THURSDAY, MAY 11, 1967, 8:00 P.M., EDT

I very much appreciate this opportunity to meet with you to discuss recent developments in the field of employee benefits. While there are many interesting facets of this area, I would like particularly to consider some of the issues concerning the private pension system which were raised by the 1965 Report of the President's Committee on Corporate Pension Funds.

As you know, this Report looks at the private retirement system from many aspects to see how it is fulfilling its expectations and responsibilities. While the Report concludes generally that the private retirement system is serving an important function in the over-all retirement program of this country, it does point up several areas where improvement seems necessary if the system is to continue to meet its responsibilities.

Although the Report had been carefully considered within the Government for about three years, the Administration realized that the complexity and importance of the issues involved warranted close examination and analysis of the Report by the business community, labor organizations, and others before affirmative action was taken in the nature of legislative proposals. Thus, the Report was released in January 1965, not as a catalog of proposed legislation but rather for the purpose of initiating public discussion of the issues with which it dealt. The Report has succeeded in its objective of stimulating considerable public interest and discussion. Many companies, organizations, and individuals have submitted critiques to the Government. While the comments from the business community have contained some interesting and provocative thoughts, many of us in Government were somewhat disappointed that most of the comments were negative in tone and merely indicated general opposition to any change. There have been few positive suggestions for improvements in the existing statutes or regulations. I recognize that this

was only a temporary and initial response, and that more constructive views are gradually being formulated and advanced.

Before discussing what has been going on within the Government, let me briefly set forth some over-all views on the matter of pension plan reform. While I, of course, cannot speak for them, I believe that they also represent the views of other Government officials involved.

We believe that the private retirement system is fulfilling a major role in our economy as a vital supplement to the basic social security system.

We recognize that flexibility in the private system is desirable so that it may serve the particular needs of individual companies and their employees. However, we think there are areas where the system is failing to come up to the standards necessary for it to meet its basic objectives. These are areas where improvements appear appropriate and needed. We are anxious that the improvements be made in a way which will not needlessly disrupt existing and future plans.

At the present time, the situation within the Government is as follows:

The Inter-Agency Staff Committee was reactivated almost a year ago. Its main activity has been to hold a series of meetings with knowledgeable groups to discuss certain of the recommendations in the Cabinet Committee Report. The discussions centered on the recommendations relating to: (1) vesting, (2) funding and reinsurance, (3) broadening of employee coverage, (4) fiduciary responsibility, and (5) additional disclosure. These were the particular areas in which it was thought that the issues had been refined to the point where detailed discussions would be helpful. The discussions did not deal with broad philosophical points but rather with the considerations which must be taken into account in developing concrete proposals.

The groups with whom meetings were held included employers, unions, representatives of jointly trusteed multi-employer plans, actuaries, accountants, banks, and insurance specialists.

We on the Government side found these meetings extremely helpful. For example, many comments made at these meetings were reflected in the eventual proposals on fiduciary responsibility and disclosure which were submitted by the President to Congress in his Consumer Message in February of this year.

Furthermore, as a result of these meetings, we have dropped from our current agenda one of the earlier recommendations -- that is, the proposed elimination of the option to limit plan coverage to the salaried and clerical group. We found that the Cabinet Committee's rather broad recommendation for mandatory coverage of all employees did not take adequate account of the wide variety of situations where such a requirement may not be realistic -- as, for example, where a particular group of employees indicate a preference for a different type of retirement plan or, perhaps, for a cash wage increase or another type of fringe benefit. For this reason, it was decided that it would not be appropriate to proceed with this recommendation at this time.

These meetings, as well as the staff work following them, have also brought us considerably further along in our thinking with regard to minimum vesting and funding requirements, and on the question of whether a practical reinsurance proposal can be developed. In fact, fairly specific staff proposals for legislation on these points have now been developed. I think it would materially advance the discussion in this area if the broad aspects of these proposals were made available to you -- for your consideration and constructive criticism.

As you will note, the staff proposals differ in some important respects from those set forth in the Cabinet Committee Report. This is the result of a careful re-evaluation of each of the original proposals in light of the comments and criticisms which have been received. The new proposals contain definite structural improvements -- and as a consequence represent an example of the mutual benefits to be gained from an open exchange of ideas between Government and the private sector. For example, these new proposals have been carefully developed with the aim of making certain that they would not involve Government interference with individual plan decisions on the investment of pension funds or the selection of specific actuarial methods and assumptions.

I hope that each of you will evaluate the proposals in a constructive manner and within the context of the objectives of the private retirement system -- that is, from the standpoint not only of individual employers and employees but also of society as a whole.

Let me mention some of the building-blocks in these proposals.

First on the matter of vesting:

(1) Vesting of pension benefits is a desirable and needed part of the structure of private pension plans. Our modern society -- involving dynamic changes in industries, businesses, and products and great mobility in individuals' working lives -- requires the stability accorded by vesting of benefits if the private pension system is to work properly. Without vesting of benefits, employees can find themselves devoting large portions of their working lives to an employer only to find when a move is necessary, that those years have bought nothing toward their security on retirement. We must recognize that the necessity for a move can, under today's conditions and those likely in the future, originate as well in the career plans of the employee and his family as in the business plans of an employer.

I have found very little genuine disagreement with the principle of vesting. The issue is how to devise the mechanics of a vesting standard and the mechanics of transition to that standard.

(2) As to those mechanics: The staff proposes that participants in private pension plans be granted vested rights after 10 years of service with the employer. This recommendation is based on the principle that 10 years is a sufficiently extended period of time for the value of an employee's service to be explicitly recognized for pension purposes. It represents about one-fourth of the typical working life of an employee. Loss of benefits for such a period of service, were an employee to move elsewhere, would therefore represent a substantial reduction in his retirement security.

The 10-year period would generally begin to run at the time the employee is first hired. However, in order not to require the vesting of relatively small benefits, an employee's service before age 25 could be disregarded if that service is not taken into account under the pension plan.

The required vesting standard would only apply to the normal form of retirement benefit, such as a straight life annuity or a life annuity with a term certain. It would not have to be applied to other benefits under the plan, such as special early retirement allowances.

The amount of benefit which should be vested in an employee leaving before retirement age would be a specific portion of the benefit he would have received at retirement, determined by the ratio of his actual credited service to the credited service he would have had had he remained until retirement age.

The staff carefully considered but rejected allowing vesting to be deferred until a certain age. With an age requirement set at 45 years or above -- which seem to be the levels suggested by some -- too large a segment of an employee's working life could be excluded from pension coverage if he were to change employment before he reached age 45.

(3) Transitional features would be provided so that employers may build up gradually to the maximum increase in plan costs. I believe that this matter of transition is a basic concern of the business community in the area of vesting. Certainly this concern is understandable. But fortunately it can be fully met by a recognition, first of the need for a period of transition, and second of the desirability of as much flexibility as possible in the mechanics of the transition.

A broad transitional rule which would seem appropriate -- at least for many plans -- would provide that the new vesting standard need only be applied with respect to benefits for service after the new requirement goes into effect. In other words, only benefits for future service -- service after the effective date of the change -- need be vested. But service prior to that date would count toward the 10 years required service before benefits are to be vested.

This would not be the only transitional path under the staff proposal. There are undoubtedly employers who would be unwilling to differentiate between future and past service since, to do so, would not distinguish between long-service and short-service employees. They may prefer a transition more favorable to long-service employees. Accordingly, optional arrangements to phase-in the 10 year vesting standard would be made available under which that standard would not become fully applicable until 10 years after the legislation becomes effective.

One such alternative would permit a plan to adopt a 20-year vesting standard -- applicable to the full benefit earned to the date of termination -- for employees who leave during the first year after the legislation becomes effective, and then systematically to reduce this standard so that after 10 years all employees leaving with more than 10 years of employment would receive vested rights. Under another alternative, the 10-year standard would apply immediately but only with respect to a specified percentage of an employee's benefits depending on when he left the company: if he left in the first year after the effective date of the legislation, only 10 percent of his benefit would need be vested; if he left in the second year, 20 percent, and so forth. Under either of these alternatives, however, there would be no distinction between past and future service benefits, unlike the broad transitional rule earlier mentioned.

There may, of course, be other transitional arrangements which might better meet the needs of particular plans, and the staff would certainly explore them.

In any event, no change in plan provisions would be required for the first two or three years after a bill is enacted in order to allow time for renegotiation of labor contracts. Thus, the total transitional period would really be in the nature of 12-13 years.

Any evaluation of the 10-year vesting standard proposed by the staff must be made within the context of these transitional rules. The staff proposal does not call for 10-year vesting tomorrow or the next year. Instead, it is really suggesting this standard for 12 or 13 years from now and, in this respect, appears to recognize the evolutionary process that is constantly at work within the plans themselves. Thus, in comparing the staff proposal with actual plan experience, the proper point of reference is not the present but rather what is likely to be the attitude 12 or 13 years from now.

(4) New plans -- another aspect of real concern to many in the business community -- would not be required to meet any vesting standard for employees leaving during the first five years the plan is in effect. This delay would recognize that often plans are initially set up to meet the situation of a few long-service employees nearing retirement age. It may not be feasible, in this situation, for an employer at once to meet the cost of providing for these employees and also the cost of vesting for other employees leaving during the first few years.

Our meetings with the outside groups were very helpful in pinpointing the problems and considerations relevant for new plans.

On the matter of funding of benefits and reinsurance:

(1) Reasonable assurance that accrued pension benefits will actually be paid is also a desirable and needed part of the structure of private pension plans. A pension plan is nothing more than an empty promise to an employee if years of service spent in the belief that he is adding to his security on retirement turn out to be years of illusion because the promise turns out to be only words on paper and the funds to make it real are lacking. No amount of fine print in a pension plan explaining that a vested benefit may be something different in the end from an actual paid benefit will assuage the feeling of unfairness and indeed of deception on the part of the employee. Nor can it meet the real hardship that deprivation of a vested and therefore expected, benefit may mean.

An employee will thus inevitably -- and understandably -- indict his employer and the Government for any failure of funds when he seeks to exchange his promise of a vested benefit for actual payments. Just as the beneficiaries of life insurance and the depositors in savings institutions clearly expect a rational and modern society to protect their reliance on the institutions of that society, so will the beneficiaries of pension plans expect similar protection.

It is thus really inescapable that employers and the Government have a common obligation, and thus a common goal, to provide for the security of the employee by assuring the resources from which benefit commitments can be met. Here also therefore the issue is not whether there should be adequate protection but how to devise the mechanics for that protection without unduly interfering with the operations and flexibility of the private retirement system.

(2) As to those mechanics, the staff proposal would measure a plan's funding adequacy by comparing its assets with the liabilities to which it is committed -- that is, its liabilities for vested benefits. This relationship would be reported to the Government every three years.

In recommending this approach, the staff concluded that the relation between assets on hand and liabilities for vested benefits is a meaningful test of the ability of a plan to honor its benefit commitments. An employee is not particularly concerned with actuarial methods and rates of funding accrued liabilities; rather, he is most interested in the relationship between the benefits promised by the plan and the funds available to meet those benefits. Substantially this same measure of funding adequacy is being used by the Pension Research Council in its study -- under the leadership of Professor Dan McGill of the University of Pennsylvania -- of the funding status of a broad range of plans.

(3) While the ultimate goal of such a funding standard would be "assets equal to vested liabilities", plans would be given 25 years in which to reach this goal. This approach recognizes that plans generally begin with large past service liabilities that can realistically be funded only over an extended period of years. More specifically, a plan would each year have a funding target -- in terms of a percentage of assets

measured at market value to vested liabilities -- which it must meet, and this target would be increased at an annual rate equal to four percent of vested liabilities. Adjustments in the schedule would be permitted to account for amendments to the plan which substantially alter liabilities. Furthermore, to ease the transition for existing plans, a more gradual schedule would be applied for the first few years after the legislation is enacted.

(4) Such a stretching out of funding by the employer for vested benefits, so that full funding would not have to be reached for a number of years, will meet a genuine concern of employers and others that the requirement of full funding not be a drain on their resources. But this solution for the employer's problem will be no answer to an employee seeking actual payments in cases -- hopefully rare -- in which the gradual funding proves insufficient to meet actual claims in the event of a termination of the plan in the interim period. Such an employee can rightfully state that a solution which leaves him empty-handed is not a rational solution. He will still view the private pension system -- employers -- and society derelict in their trust.

As a consequence, the staff proposes the establishment of a common fund which would be available to meet any particular plan's unfunded liabilities in the event of its termination while moving towards full funding. Under the staff proposal, each plan would make contributions to the common fund based on the amount of its unfunded vested liabilities. If a plan is terminated for business reasons, amounts from the common fund would be available to make up the difference between its funding target and its vested liabilities which cannot be covered by the assets in the plan. In this fashion, employers as a group would be providing the difference between target funding and full funding of the vested benefits of the private pension plan system.

To preserve the integrity of each separate private plan the termination protection would not apply to the extent an employer has not met his prescribed funding target, whether because of a deficiency in contributions or an abnormal drop in the value of the assets in the fund. Moreover, penalties would be applied to a plan if it remained below its funding target for more than three years.

These are some of the building blocks which our staff people believe will make for sound vesting and funding-reinsurance proposals. Let me reiterate, however, that these building blocks are not official Government proposals, either of any Department

or of the Cabinet Committee. They are under study -- just as I hope you and others interested may study them.

I assure you that we do not feel that all wisdom in the world on this or any other issue rests with the Government. It is often difficult for us in the Government to appreciate fully the varying practical problems which necessarily arise over the wide spectrum of business. The managers of private plans in turn may recognize that being close to those problems can make the problems loom larger than they really are. They may find it beneficial therefore to see what can be accomplished when one turns from recognizing problems to a genuine effort to solve those problems. I, therefore, hope you will share your constructive thoughts with us as we consider these staff proposals. I can assure you that we will receive any suggestions with an open mind. While we may not go along with all of your thinking, I can't help but believe that such sharing of ideas would be mutually beneficial to the Government and to industry.

That is the primary message I have for you today. I wanted you to know that we are moving ahead towards formulating our recommendations respecting private pension plans, and that you should not mistake our considered deliberations for any slackening in our feeling that the private pension plan system can be strenghtened.

Before concluding I would like to take a few minutes to discuss the present status of our review of the rules for integrating private pension plans with the social security system. Here also we appear to face a situation in which the policy objective seems clear, that of requiring plans which take credit for social security benefits to do so under an approach that will insure their basic fairness and non-discriminatory character. The task, again, is one to devise the mechanics of integration in a way which avoids discrimination yet does not involve private plans in a constant process of change and difficult adjustments.

As you may be aware, we have announced the appointment of an Advisory Panel of experts to advise us on this matter. That Panel held its initial meeting with us late last month. It is assisting us in evaluating the large number of comments which have been received from interested persons in response to the Internal Revenue Service Announcement requesting background material. The Panel is also considering the effects on integration of further

possible changes in the social security system. In view of the major social security changes which the President has proposed, and which are now being considered by the House Ways and Means Committee, I believe that any final results respecting this integration matter must, of necessity, await Congressional action on the pending social security measure.

Again, I appreciate very much the opportunity to meet with you today. Your chosen careers lie in the formation and management of private pension plans. You have thus undertaken to be responsible for the retirement security of many millions of American workers. I know you are fully aware that this is a very large responsibility. Society can rightly look to your skills and your talents -- and your genuine sense of concern, indeed your conscience in your chosen profession -- and hold you accountable to it in meeting that responsibility. It knows that you will be faithful to that trust, for it is the accomplishment of that faithfulness which is your reward -- in a real sense the knowledge of that accomplishment will be your retirement security in your professional career.

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TREASURY DEPARTMENT
Washington

FOR USE IN MORNING NEWSPAPERS
OF FRIDAY, MAY 12, 1967

REMARKS BY THE HONORABLE JOSEPH W. BARR
THE UNDER SECRETARY OF THE TREASURY
BEFORE THE
UNIVERSITY OF CHICAGO'S GRADUATE SCHOOL
OF BUSINESS (EXECUTIVE PROGRAM COURSE)
CHICAGO, ILLINOIS
THURSDAY, MAY 11, 1967, 7:00 P.M., CST

PUBLIC REGULATION OF BUSINESS: A TREASURY VIEW

I am delighted to have the opportunity tonight to join in a discussion of an important subject with the students and faculty of a very distinguished school.

I would venture a guess that many of you, when you think of the Treasury, instinctively think of taxes -- that vital but universally distasteful subject. I suspect that you have been counting on me to inject this topic into your discussions. If so, then at least on this one occasion I shall not disappoint my listeners.

It is particularly appropriate to come to the University of Chicago to comment on tax policy. The "Chicago School" in economics has some very definite views on policy in this area. I will say right at the outset that I propose to disagree emphatically with some of those views at the same time that I agree with others.

I should like to discuss two different aspects of the overall problem of tax policy as it presents itself to one who has spent most of the years since 1960 in the United States Treasury.

-- First, the use of tax policy in the regulation of business in the broadest sense, that is, as an instrument of overall economic policy.

F-913

-- Second, the more particularized use of tax policy to regulate business by encouraging specific business decisions.

On the first point, I shall have to take issue with my distinguished friend, Professor Milton Friedman, on the relative roles of fiscal and monetary policy. On the second point, I find myself much more in agreement with Professor Friedman and his colleagues of the "Chicago School".

I. Broad Economic Policy

We all can agree, I believe, that the United States is committed -- and properly so -- to the goals of economic growth, full employment, and price stability. Having said that much, we may well be at the end of near-universal agreement on this subject. For there are some who believe that our capability for understanding and predicting the course of the United States economy is so limited that it is futile to attempt by government action to keep the economy on a steady course toward our agreed objectives.

Most observers do not accept that dismal conclusion. And certainly in practice the government has not accepted it. Our abilities as seers certainly do have limitations. But at the same time we have been able to make economic projections of a fair degree of reliability. Under these circumstances it runs against the grain, for most of us, to adopt a passive, fatalistic view. We must take the best judgment available as to the trend of the economy and, when that judgment requires, act to avoid anticipated economic dislocations.

This brings me, then, to the unpleasant need to disagree with Milton Friedman. If we have accepted the necessity of attempting to act upon our economic projections to achieve the goals we seek, just how shall we do so? The strong emphasis of the "Chicago School" is on the use of monetary policy. I believe that public support for this emphasis is gradually shifting.

Let us look at the most recent historical evidence. 1966 was most certainly a trying -- although instructive -- year for government officials concerned with economic policy. We faced rising civilian demand in an economy already approaching full utilization of capacity. On top of this situation was added (starting in late 1965) a sharp increase in defense expenditures required by our commitments in Vietnam. We thus operated a booming civilian economy and

carried on a substantial war effort, all without the government controls that generally have been associated with previous military actions of this magnitude.

The task of regulating the economy in these difficult circumstances fell upon fiscal and monetary policy. We had much more fiscal restraint than most people realize. The various fiscal measures applied -- accelerated collection of taxes, restoration of certain excise taxes, and suspension of the investment tax credit -- probably added up to something in the order of $10 billion of fiscal restraint.

Monetary policy, however, also played an extremely active role, as you know. According to some estimates, the amount of economic restraint induced last year by the policies of the Federal Reserve Board fell roughly in the same order of magnitude as the $10 billion of fiscal restraint that I have already mentioned. Secretary Fowler and I had the unpleasant experience of being advised, from one source or another, almost every week that we were presiding over the highest interest rates in 40 years.

At any rate, I have come to the tentative conclusion that last year the burden of restraint was shared in roughly equal proportions by fiscal policy and monetary policy.

The question now before us would be, "What does last year's history indicate for current and future policy decisions?" I have never believed that an operating official of the United States Treasury can indulge himself very far in the pleasurable pursuit of economic theory. I interpret my responsibility as trying to discern the directions in which we should move and trying to ascertain whether or not we have enough support in the country and in the Congress to move in those directions. I will defer -- until after my responsibility in the Treasury has ended -- any attempt to go deeper into the pursuit of theoretical objectives.

With this as a guideline, just where do we stand in the Congress and in the country on the question of utilizing fiscal policy to offset economic swings. I believe there is a broad consensus in the country and in the Congress that it is most appropriate for us to keep our tax system under continual scrutiny to make certain that its long-range application can result in steady and sustainable economic growth. I emphasize "continual scrutiny" because we must be alert to anticipated developments that would cause our tax structure to become a hindrance to satisfactory economic growth.

The harder question arises when the nation is confronted with a demand situation of such magnitude and inflationary potential that resort either to direct controls or to a dangerously tight credit policy is the only alternative to tax action. If I read the country and the Congress correctly, I believe that if the nation were to be confronted with this situation, it would probably be possible to persuade the Congress to take tax action. Last year's history tends to support this viewpoint.

On the other side of the coin, if we were confronted with strong recessionary tendencies, I believe that the country would accept tax reduction, as well as some of the more traditional anti-recession measures, as a means of combatting the waste of human and material resources which inevitably accompany a severe economic downturn. I can say that we in the Treasury would have great difficulty in standing passively by while major distortions in the economy were taking place.

Thus, it would seem that we clearly have at hand the use of tax policy for long-range economic objectives. I believe we have at hand the use of tax policy to counteract major economic disturbances when the alternative corrections (direct controls, dangerously tight credit policies, or abnormally large expenditure swings in the Federal budget) might well prove more distasteful than adjusting to a tax change. I do not believe that there is agreement on the use of frequent changes to correct minor fluctuations in the business cycle.

This is my estimate of where we stand today. We ought to have the support necessary to finance the Vietnam War and our domestic objectives without being forced to resort to either controls or dangerously tight credit policies to avert the dangers of inflation. I think that we ought to have the support for tax reduction after the fighting has stopped if such action fits rationally into our postwar planning.

We have not arrived at any theoretical utopia. I will depend upon others to continue the discussion incident to moving towards that objective. But we as a nation have moved far when we recognize that there is an alternative to the use of direct controls or monetary policy in periods of excess demand. I am confident that we will at least consider the use of tax policy if we are confronted with a serious deficiency of demand in the post-Vietnam era.

This is a long step forward, but realistically it leaves to the Federal Reserve Board at this moment the major burden of responsibility for "fine tuning". We can accomplish a minor portion of this responsibility by adjusting Federal expenditure levels, but this process involves so many time lags that it must realistically rank quite low when compared with the tools available to the Federal Reserve System.

Thus, while I would not argue that Professor Friedman has been routed from the field, still I would submit that there has developed in the nation strong support for the thesis that the use of fiscal policy as an alternative or as a supplement to monetary policy should be considered in times when the nation is threatened with violent economic dislocations.

II. Specific Regulation through the Tax System

Let me turn now to another aspect of tax policy -- one that is more obviously related to the subject matter of public regulation of business. Here I believe I shall have the pleasure of being in fundamental agreement with the views of the "Chicago School".

My subject here is the tax code as a vehicle for specific programs aimed at particular economic or social objectives. We have had, currently have, and no doubt will continue to have many proposals for tax incentives -- the incorporation into our tax laws of provisions intended to induce businessmen to make various business decisions in a way that the proponent of the incentive deems desirable. On the general run of these proposals, the traditional Treasury position -- which I heartily endorse -- is opposition.

As the distinguished Chairman of the House Ways and Means Committee has put it, "... the primary or overriding role of the Federal tax system is to raise in a fair and equitable manner the necessary revenues without which Government cannot operate." In doing so, I believe that our objective should be to strive for "neutrality" in the impact of the tax system on business decisions.

Fundamentally I feel that it is poor policy to have the tax code interfere with the normal competitive operations of the market place in allocating capital to various segments of the economy. This is the "philosophical" underpinning for the goal of neutrality. There are, however, a number of very practical reasons for opposing the use of the tax code as an instrument for detailed regulation of business. Let me delve into these for a moment.

We in the Treasury are assaulted daily with a variety of plans for special tax incentives. The goals are almost invariably commendable ones -- education, manpower training, pollution control, and assistance to depressed areas, to name just a few. In a sense it would be most comforting to think that problems such as these could be solved simply by enacting some tax incentive. But these answers, in my opinion, are too simple to be satisfactory. Here are some of the reasons:

1. Assistance through the tax law is a hidden form of assistance. If the Government has an expenditure program to achieve some non-revenue objective, it is subject to careful annual scrutiny in the budget process and the appropriation process. We make serious efforts to determine whether we get what we pay for. An "expenditure" made through a special benefit in the tax law, however, tends to become permanent and immutable. There is not the same opportunity to evaluate its efficacy -- except for occasional forays by some crusader, such as your former Senator, Paul Douglas, who often questioned whether particular tax provisions were doing what they were supposed to do.

2. Tax credits must be administered by revenue agents who, in general, do not have the specialized expertise to make the judgments called for in what is really a non-tax program. The proposals for tax credits for worker training are a good example. The bills that have been introduced refer generally to worker training programs, but what _is_ training is not so obvious. Could an employer set up a program of so-called training and use it for routine work assignments? It would take some expertise to distinguish practice work and just plain work. The bills also would deny the credit for training in supervisory, managerial, or scientific skills. Recognizing these features in borderline cases is no easy matter.

3. With a tax incentive, it usually is impossible to distinguish between efforts that are the result of the incentive and efforts that would have occurred even without it. This means that some part -- frequently a large part -- of the Government's revenue loss may go as a windfall to those who were prepared to take action without regard to the incentive. In the on-the-job training program of the Department of Labor (OJT) an effort is made to negotiate contracts for specific expansions in training programs in which the Labor Department is in a position to make whatever financial commitment is necessary to bring about the expansion. In some cases this may require more than the flat credit provided in the bills (10 percent), in other cases less.

4. Tax incentives must rely exclusively on the profit motive. From a social standpoint, in a society which is concerned with poverty and unemployment and which has some aversion to paying the idle poor, one proper goal in designing training programs is to make employable a person who would otherwise be unemployable. The business profit motive would tend to be concerned with the increased productivity of the trained worker and might tend to concentrate on raising semi-skilled workers to the skilled category; it might show little direct concern for the unemployable. I think that although there may be some indirect benefits for the unemployable from the general upgrading of labor, a better combination can be achieved by covering both objectives of training in specific government programs such as OJT and Youth Corps where a tax credit approach gives scant recognition to the problem of the unemployables.

5. A tax credit approach is limited to providing incentives for firms with taxable incomes. It could be of little use to a new employer with uncertain prospects. It would be of no use to nontaxable groups, such as labor unions and community organizations or trade associations, that have set up useful training programs under OJT.

The short of it is -- as the manpower training example shows -- that tax devices generally turn out to be quite inefficient and ineffective as methods for regulating specific business conduct. This, added to the fundamental desirability of neutrality in the tax system, seems to me to necessitate an effort to resist most special tax incentives, and to eliminate those that already have crept into our tax code.

This has been much of the gist of tax reform in recent years. The Treasury has made persistent efforts -- some successful and some not so successful -- to get the tax system out of the business of encouraging particular types of business activities or particular types of business organizations:

-- In the late 1950's the specially-favored tax position of the life insurance industry was substantially cut back.

-- The tax favoritism accorded to mutual and cooperative forms of businesses has been reduced, particularly for savings and loan associations, mutual fire and casualty insurance companies, and farm cooperatives.

-- Important steps have been taken to reduce the distorting effects upon investment of the favored position of foreign tax havens.

These items are of course only a sampling. My personal view is that, even in those instances in which our tax reform proposals have not been adopted, the game has been well worth the candle. I believe that it is a useful and constructive step for us to lay before the Congress and the people our views on these matters, and to encourage increased debate and public understanding of the goals of tax policy.

I am hopeful that we will soon have further proposals before the Congress. The President announced in his Economic Report that he intends to make recommendations this year for further tax reform. These recommendations again will include areas in which, if the Congress concurs, we can move forward in the direction of tax neutrality -- toward "non-regulation" of business through the tax system.

I cannot leave this subject without emphasizing one important qualification upon the objective of tax neutrality. Our tax system cannot operate in a vacuum, because our economic system itself does not operate in a vacuum. We live in a world in which the economy of one country increasingly is affected by the economies of other countries. In this context, our tax system cannot truly be neutral unless it takes into account the tax systems of other nations, and their resulting effects upon international competition. This was a main rationale behind the investment credit.

However, with this one qualification I would insist that a neutral tax policy provides the best economic climate for intelligent decisions on the allocation of our Nation's resources. It makes good sense from the standpoint of equity as well as economics. And finally, while tax burdens are rather grudgingly accepted by all of us, the degree of acceptance drops rapidly if certain sectors of the economy feel that they are carrying more than their fair share of the load. Therefore, I should like to assure my good friend, Professor Friedman, that in my personal opinion a neutral tax policy is not only good economics -- it is good politics.

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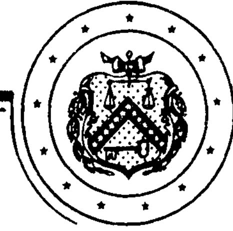
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

May 12, 1967

TREASURY DECISION ON TUBELESS TIRE VALVES
UNDER THE ANTIDUMPING ACT

The Treasury Department announced today various actions it plans to take in connection with its investigation of the possible dumping of valves, tubeless tire, finished from West Germany and from Italy. The actions will be published in two documents, one pertaining to West Germany and one pertaining to Italy, which will appear in an early issue of the Federal Register.

The Federal Register document with regard to West Germany will cover a notice of intent to discontinue investigation as to certain valves. The document will also cover a tentative negative determination that certain valves are not being, and are not likely to be, sold at less than fair value and a tentative affirmative determination that other valves are being, or are likely to be, sold at less than fair value. The Federal Register document with regard to Italy will be a notice that valves from that country are being, or are likely to be, sold at less than fair value.

These actions are taken under the Antidumping Act, 1921, as amended (19 U.S.C. 160 et seq.).

The intent to discontinue investigation will apply to valves TR 414, 418, 420, 423 and 425 produced by EHA Ventilfabrik, Muhlheim Am Main, West Germany, as to which the manufacturer has terminated shipments and given assurances that there would be no future sales at less than fair value regardless of the disposition of this complaint.

The negative part of the tentative determination will apply to (1) valves TR 413 and 415 produced by EHA Ventilfabrik, Muhlheim Am Main, West Germany, if purchased in quantities of over 33,000 units per month over a significant period of time and (2) valves 413 and 415 produced by Alligator Ventilfabrik, Wurttemberg, Germany.

The affirmative part of the tentative determination as to West Germany will apply to all other finished tubeless tire valves from that country. As noted above, the tentative determination as to Italy is affirmative as to all finished tubeless tire valves.

The withholding of appraisement notices which were published in the Federal Register of October 12, 1966, as to West Germany and on October 20, 1966, as to Italy will continue in effect pending further determination.

Imports of the involved merchandise from West Germany received during the period November 1, 1965, through November 30, 1966, were valued at approximately $112,000. The information with regard to Italian imports of the involved merchandise covers the period March 1 through December 31, 1966. These imports were valued at approximately $250,000.

TREASURY DEPARTMENT
Washington, D. C.

IMMEDIATE RELEASE
FRIDAY, MAY 12, 1967

F-914

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 - May 8, 1967

Country of Origin	Established Quota	Imports
Egypt and Sudan	783,816	-
Peru	247,952	50,487
India and Pakistan	2,003,483	-
China	1,370,791	-
Mexico	8,883,259	93,043
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 - May 8, 1967

Staple Length	Allocation	Imports
1-3/8" or more	39,590,778	33,682,874
1-5/32" or more and under 1-3/8" (Tanguis)	1,500,000	151,695
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, 1966, to May 8, 1967	Established 33-1/3% of Total Quota	Imports 1/ Sept. 20, 1966 to May 8, 1967
United Kingdom...........	4,323,457	34,048	1,441,152	34,048
Canada....................	239,690	67,453	-	-
France....................	227,420	31,583	75,807	31,583
India and Pakistan........	69,627	16,058	-	-
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	33,839	25,443	22,148
Italy.....................	21,263	-	7,088	-
Other, including the U. S.	-	-	-	-
	5,482,509	182,981	1,599,886	87,779

1/ Included in total imports, column 2.

Prepared in the Bureau of Customs.

F-914

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
FRIDAY, MAY 12, 1967

F-915

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 April 29, 1967:

Commodity	Period and Quantity		Unit of Quantity	Imports as of Apr. 29, 1967
Tariff-Rate Quotas:				
Cream, fresh or sour	Calendar year	1,500,000	Gallon	664,954
Whole Milk, fresh or sour ..	Calendar year	3,000,000	Gallon	-
Cattle, 700 lbs. or more each (other than dairy cows)	Apr. 1, 1967 - June 30, 1967	120,000	Head	495
Cattle, less than 200 lbs. each	12 mos. from April 1, 1967	200,000	Head	21,842
Fish, fresh or frozen, filleted, etc., cod, haddock, hake, pollock, cusk, and rosefish	Calendar year	24,883,313 1/	Pound	Quota filled
Tuna Fish	Calendar year	69,472,200	Pound	17,635,140
White or Irish potatoes:				
Certified seed	12 mos. from Sept. 15, 1966	114,000,000	Pound	Quota filled
Other	12 mos. from Sept. 15, 1966	45,000,000	Pound	Quota filled
Knives, forks, and spoons with stainless steel handles	Nov. 1, 1966 - Oct. 11, 1967	84,000,000	Pieces	Quota filled
Whiskbrooms	Calendar year	1,380,000	number	Quota filled
Other brooms	Calendar year	2,460,000	Number	1,911,800 2/

1/ Imports for consumption at the quota rate are limited to 12,441,656 pounds during the first 6 months of the calendar year.

2/ Imports as of May 5, 1967.

Commodity	Period and Quantity		Unit of Quantity	Imports as of Apr. 29, 1967
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, 1966	1,000	Pound	
Peanuts, shelled or not shelled, blanched, or otherwise prepared or preserved (except peanut butter)	12 mos. from Aug. 1, 1966	1,709,000	Pound	Quota filled

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
FRIDAY, MAY 12, 1967

F-916

The Bureau of Customs has announced the following preliminary figures showing the imports for consumption from January 1, 1967, to April 29, 1967, 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 Apr. 29, 1967
Buttons	510,000	Gross	84,477
Cigars	120,000,000	Number	3,049,265
Coconut oil	268,800,000	Pound	Quota filled
Cordage	6,000,000	Pound	2,894,788
Tobacco	3,900,000	Pound	443,600

TREASURY DEPARTMENT
Washington

IMMEDIATE RELEASE
FRIDAY, MAY 12, 1967

F-917

The Bureau of Customs announced today the following preliminary figures on imports entered for consumption under the absolute import quotas provided for in section 12.71, Customs Regulations, for coffee grown in nonmember countries of the International Coffee Organization for 12-month period beginning November 15, 1966.

COFFEE
(Green - In pounds)

Country	Established Quota	Total Imports as of May 8, 1967
Bolivia	1,850,800	1,670,404
Guinea	1,454,200	Quota filled
Liberia	2,511,800	Quota filled
Paraguay	2,644,000	-
Yemen	1,850,800	229,834
Basket 1/	6,610,000	4,652,775

1/ Basket quota allocated to unlisted nonmember countries and to listed nonmember countries after respective quota filled.

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
(EXPECTED AT 12:30 P.M. FRIDAY,
MAY 12, 1967)

REMARKS OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
TO THE NATIONAL MACHINE TOOL BUILDERS ASSOCIATION
STATLER HOTEL, WASHINGTON, D. C.
FRIDAY, MAY 12, 1967, 12:30 P. M., EDT

It was nearly five years ago when I last had the opportunity to discuss with you the importance to our national economy of a healthy machine tool industry and an adequate rate of investment in capital goods in general, as a means of increasing productive capacity and of modernizing existing capacity in line with the lastest achievements of technology.

Our last previous visit together -- in September, 1962 -- came at a most significant time for your industry and for the national interest in increasing investment and technological development. The Treasury Department had just inaugurated new and improved depreciation guidelines. The initial version of the investment tax credit was on the verge of adoption by the Congress after a long and difficult struggle for its adoption in the interests of making our capital recovery tax structure adequate to encourage economic growth and in the interests of making United States industry modern and competitive.

At the Treasury -- where I was Under Secretary -- we recognized that these sweeping changes in tax policy would pay benefits for many years to come -- benefits to business and to all of our citizens through a more rapidly growing and efficient economy.

I need not review for this audience the fruits of those decisions and the follow-up changes in our national economic mix centered around the Revenue Act of 1964.

Let me just note the following, very briefly. The investment tax credit was adopted toward the end of 1962, a few months after the administrative announcement of new depreciation guidelines. In that year business expenditures for plant and equipment came to a little over $39 billion. Plant and equipment outlays had grown by about 14 percent in the four years, 1959-62. In 1966, the fourth year after passage of the investment tax credit, capital expenditures stood at $60.5 billion -- a four-year growth of more than 62 percent.

Meanwhile, nonfarm output per man-hour grew very nearly half again as fast in the four years, 1963-1966,as productivity increased in 1959-62.

Having some familiarity with the ups and downs of the capital goods industry and its vital machine tool sector over the last 25 years, I know it is not enough to look back on these past accomplishments and the escape from the relative stagnation in this sector in the late Fifties and early Sixties. It is not enough to escape for a few years from an antiquated capital recovery system. This vital spark in the U.S. economy ought not fall prey again to the ills of the past that have afflicted this highly cyclical industry. We all remember the period after World War II and the Korean War when, as a result of having passed the peaks of defense production and being confronted by surplus equipment in stocks and surplus capacity in place, this industry and, indeed, the whole capital goods sector fell upon the inevitable lean years.

Therefore, I would propose today that we look ahead into the post-Vietnam period, whether that be near or far, to consider what private and public policies would be conducive to enabling this industry, and the entire capital goods sector, to play fully its vital role in our national life.

But before doing so it may be useful to review again just why it is important as a matter of national policy -- tax or otherwise -- to be concerned on this score.

I tried to cast up this account in the Fall of 1961, and I will go back to that analysis, if I may, for most of what I said then seems relevant today as we peer ahead into the post-Vietnam era. My comments then were as follows:

"First, increasing investment levels in machinery and equipment in the years ahead will help make our present economic recovery a vigorous and long lasting one. Additional expenditures on machinery and equipment and the plants and facilities necessary to house it will create more jobs in the capital goods industries. There is a startling association between vigorous and lengthy upswings in the economic cycle and a healthy increase in the levels of capital goods expenditures. Our last three recoveries have lasted forty-five months, thirty-five months and twenty-five months, respectively, in that order. Since World War II approximately 14 quarterly periods, or 23 percent of the total, have been periods of recession. Already some economic forecasters are warning that the rising economy may level off in mid-1962 or early 1963, and that there is a real danger of another slump. The projection of a healthy increase in investment levels for machinery and equipment, whether for modernization or for expansion, would be added insurance that the current recovery would reverse the trend to ever shorter up-swings and give promise for a healthy and more enduring recovery."

Let us note, at this point in 1967, that we are presently in the 76th month of an economic expansion that began in February of 1961. The endurance of this period of prosperity and economic and social improvement of every kind so far beyond the two to three year period that seemingly become the best to be expected by the early 1960s is therefore coincident with the existence of the investment tax credit and the general lightening of the tax overburden on the United States economy that took place under the Kennedy and Johnson Administrations.

The second general benefit to be expected from stimulating capital investment, I said in 1961, was the fact that increasing investment levels in machinery and equipment would do double duty in increasing our rate of economic growth. The figures previously cited, suggesting a relationship between equipment investment and economic growth, merely reflect the proposition that expanding the production base, or improving its efficiency, or both, should lead to higher output. As investment in plant modernization and expansion contributes to a larger export trade for our nation, as it puts people to work in the capital goods industries, as it preserves and expands our domestic market through competitive efficiency, it contributes to the economy's long-term growth.

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In this respect, we can note in 1967 that in the four years after 1962 the U. S. economy grew, in real terms, by 22 percent, whereas in the four years 1959-62 the economy grew in real terms by only half as much -- approximately 11 percent.

As the third general point with respect to the desirability of investment incentives I noted that increasing investment in the modernization of machinery and equipment is vital to a long-term solution of our newest economic problem bound up in the phrase "balance of payments." If the nation is to finance the maintenance of our military forces overseas, as well as finance our investment abroad, and that minor portion of our foreign aid which is in dollars, it must sell more merchandise abroad than it buys -- at least $6 billion more. This places a high premium upon the competitive position of U. S. based production in relation to foreign manufacturing. The simple truth is that the U. S., to a large extent, is depending on the aggressive, competitive drive of American business to meet the underlying problem behind our balance of payments deficits without diminishing our national security world position.

We cannot report victory here, and I shall have more to say later about our balance of payments problem as it stands today. Vietnam has knocked the chance to overcome this problem out of our hands for the time being. Nevertheless, our trade balance must be one of the most important elements of any desirable long range solution when in the post-Vietnam period we shall be able to reach sustainable equilibrium in our foreign payments. And we can take heart from the fact that with the investment credit and other tax incentives to investment in being, our trade surplus rose to a historic high in 1964 of $6.7 billion, before Vietnam intervened.

Now, neither here nor in any of the other aspects of the investment problem that I am discussing do I mean to be understood as implying that the tax incentives to investment worked a lone miracle in the United States economy during the 1960s. But I think that it is obvious that the incentives given to investment in the United States in the last few years have been an important element, indeed one of the most important policy elements, in the growth of the great economic strength that we have witnessed in our

country in recent years. The contrast with the economic stagnation of the late 1950s, and the coincident fact that in those years investment in particular was lagging, simply cannot be overlooked.

Obviously, therefore, in investment incentives we have, if not a genie, a very good and faithful servant, in whose presence our affairs have greatly prospered. And yet there are hazards in the way of keeping them on the books -- in fact the investment tax credit, as everyone here is keenly aware, is presently off the books and we are trying hard to get it back in place. We will succeed in that, and promptly, I am confident.

But, there are those who think the investment tax credit can properly be used as a countercyclical tool. I would like you to understand my position on this score.

In a speech prepared for delivery to the Business Council last October, the very week the investment credit suspension was enacted in the Congress, I said:

"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 reach 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."

And during my appearance before the Senate Committee on Finance this Spring for the restoration of the credit, I was asked if it would not be likely that if another boom developed, suspension of the credit would again be requested. I replied:

> "Well, given the same unusual set of circumstances that existed late last August and early September, my answer would have to be in the affirmative. However, it would be my expectation that it would be most unlikely that such a situation would ever occur except perhaps at a time when there would be a war that should emerge suddenly at a time when the economy was in a state of full employment and capacity was being utilized up to the hilt. I would think that in such an emergency this is the kind of a move that would be under consideration.
>
> "Only in the event of a return of that unusual set of conditions would I ever personally foresee a position in which a further suspension would be requested."

Our position that the investment tax incentive is a part of the fabric of our tax system, to be taken out, if at all, only under such highly unusual conditions as we faced last Fall, will, I think come to be more readily and more generally accepted in the post-Vietnam future than it has been in the past.

I believe this will be the case because the tax incentive to investment is a step in the direction of reducing the tax burden the American economy carries, and I am convinced that after Vietnam both public and private economic policy will be based upon a general acceptance of the idea that general and sustained tax reduction is desirable.

In such a context, the logic of keeping the tax over-burden upon the investment process -- which lies at the root of economic growth -- will be obvious. It was not obvious in the past when there was widespread belief that the only way to keep the government's revenues at an adequate level was to keep taxes high.

Acceptance of the idea that we can -- and should -- operate with generally lower tax rates will result, I think, from the currently growing awareness of two high important and closely inter-related facts that can now be demonstrated but that have in the past been doubted and debated:

First, the benefits to the economy of lightening its tax load are so great, and are made evident so quickly in an upswing in the economic growth curve, that the Government gains revenue by reducing tax rates quickly enough to make the risk of adding to deficits from tax rate reductions very temporary, and swiftly overcome.

Second, the Federal government has the will to recognize and operate upon the basis of the corollary to tax rate reduction: that spending must be controlled, on a priority basis, so that any initial deficits from tax reduction are not exacerbated, and so that the succeeding increases in revenues become fiscal dividends available for us, not just in increased outlays, but across the board, for further tax rate reduction, to offset revenue losses from tax reform, to retire Federal debt when that is of a high payoff nature in terms of the future growth and efficiency of the American economy and society.

Let us look very briefly at the record of the past few years, for it is this record of economic growth, and increasing revenues flowing from tax reduction, together with a record of highly responsible control of Federal spending that, I am convinced, has laid the groundwork for the continuation -- including the use of tax incentives to investment -- of the process of tax rate reduction in the post-Vietnam period.

Since the passage of the Revenue Act of 1964, that is, during the four fiscal years that have been completed or budgeted since then, we have had the following results:

-- There have been declining deficits -- or surpluses -- in every year except 1967 in the Administrative and the National Income Accounts Budgets. In the third budget system in use, the Cash Budget, the deficit declined two years and rose two years.

-- In the Administrative Budget, during the four fiscal years, revenues rose by $37.5 billion, while spending roses $37.3 billion.

-- In the Cash Budget, revenues are up by $52.6 billion, while spending is up by $52.1 billion.

-- In the National Income Accounts Budget, revenues are up by $51.6 billion, while spending is up very slightly more, by $52.3 billion.

Now, let me emphasize that that record includes the swift and very substantial rise of Vietnam outlays estimated to total some $48.5 billion in Fiscal Years 1966, 1967 and 1968.

Obviously, there would be growing surpluses in these years if these special and temporary costs were elimated. This would be true even if the revenues resulting from the tax increases enacted or proposed to help finance Vietnam -- estimated at $10.8 billion including the proposed 1968 surtax -- were also eliminated. And there would still be surpluses even if effect is given to the increase in revenues attributable to the general economic stimulus of production for Vietnam.

Thus, such as been the excellence and speed of the results upon Federal revenues of tax reduction in 1964, and such has been the tenacity and effectiveness of President Johnson's control of Federal outlays, that, with only very modest tax increases, we have been able during the four fiscal years for which he is responsible, including three years of accelerated spending in Vietnam, for the most part to hold increases in Federal outlays below increases in revenues, and to keep our deficits declining -- or to have surpluses -- almost all years.

I think that is a record that will lead to continued tax reduction in the post-Vietnam period as a principal feature of governmental economic policy. In turn this policy should stimulate turning the fruits of technology into new products and new processes which should keep investment levels in machinery and equipment on an increasing scale.

Finally, let us look at the importance of keeping up a strong flow of investment in capital goods -- thereby keeping the level of American technology high and rising by comparison with any other in the world, with respect to one of our most persistent and important national problems: our balance of payments.

During the Vietnam conflict, we are holding this problem in check by the use of various cooperative measures by which the business community and American lenders voluntarily limit their outflows of dollars abroad, and by stringent control of the foreign exchange costs of American economic and military assistance abroad. But these measures, particularly to the extent that they interfere with the flow of private capital across international frontiers, are less than ideal, and we do not look to them for the long range solution to our payments problem, after the economic pressure and distortions caused by Vietnam are behind us.

The most rational and desirable profile for long range balance of payments equilibrium would be one in which:

-- The United States would meet its fair share of international commitments on behalf of mutual security in the Free World and economic development in the poorer nations of the Free World.

-- The United States would export private capital. We have the most efficient capital market in the world; to deprive a world that needs capital of access to this economic resource would, over the long run, constitute an act of economic perversity.

-- To cover these Government outflows and private capital outflows, the United States would increase its balance of payments receipts from a variety of sources, of which the most important are exports of goods and services, including travel; direct investment income, including royalties; and foreign portfolio investment.

The United States is extraordinarily competitive at the two extremes of the export spectrum -- agriculture and advanced technology. In advanced technology, our computer industry -- to cite one example -- has in the last fifteen years reduced the cost of making 100,000 calculations from $1.38 to 3-½ cents -- the kind of price reduction that does not show up in official statistics measuring national competitiveness. The nature of modern technology is such, furthermore, that it quickly "attaches itself" to other, more "humdrum" manufactured products (the machine tool is now often "computer-controlled") so that our technological lead -- if maintained -- should manifest itself across a growing range of export products.

A United States trade surplus $3-$4 billion higher than the $3.7 billion of 1966 is not going to create havoc domestically in an economy with a gross national product of $760 billion or in an expanding international trading world in which the exports of all countries currently exceed $200 billion. We have had a trade surplus of this magnitude before, in 1964. A return to such a level -- or new high ground -- is essential to a healthy solution of our payments problems.

We can expect to get back to a trade surplus of near $7 billion more only if American goods are competitive throughout the world in price, are available in sufficient quantity so that orders are promptly filled, and are equal to or better than the highest quality elsewhere. This is merely another way of saying that our trade surplus depends upon the maintenance in the U. S. of the leading edge of technology. And we can only have that if we maintain our incentives to invest.

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TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
(EXPECTED AT 11:30 A.M. SATURDAY
MAY 13, 1967)

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT THE
BUSINESS COUNCIL
IN HOT SPRINGS, VIRGINIA
SATURDAY, MAY 13, 1967, AT 11:15 A.M., EDT

Fiscal Policy and National Goals After Vietnam

I want to discuss with you today one of the least noticed but most important parts of President Johnson's Economic Report to the Congress for this year.

The President notified the Congress that he had instructed his principal economic policy advisers to begin at once a major and coordinated effort to work out plans for an orderly economic transition from war to peace after the fighting dies down in Vietnam. He directed that initial reports be prepared, and that they be kept up to date pending the time -- near or far -- when our efforts succeed in bringing peace to Vietnam on an honorable basis.

President Johnson's instructions for post-Vietnam planning have set afoot the most explicit, detailed and inclusive effort the nation has ever made to plan during time of war for the return to peace. This effort is going forward in a context entirely different from the setting in which post-war economic planning has previously been enmeshed during World War II and the Korean conflict.

Many of you here can remember the fears for the economy that mingled with the nation's prayers for peace during World War II. War production had transformed the United States from a country still partly feeling the paralysis of

the Great Depression into a country producing at the uttermost stretch, with many millions of its men off the labor market and in the armed forces. In the language of those years, the post-war economic problem could be summed up in the anxious question: "What is the country going to do when Uncle Sam stops paying $100 billion a year for war?"

Everyone here remembers -- some of you probably very vididly -- the disturbing face of the post-Korea economic problem. The problem was: how to climb down from the excessively high tax rates that had been the chief means of financing the war, and, secondly, how to restore economic freedom to a country that had mobilized for war production by the imposition of price, wage and production controls.

To bring out the almost startling contrast, as we look forward to peace after Vietnam, I need to cite only a few words from the "After Vietnam" section of President Johnson's recent Economic Report. He gave the following as the context for post-Vietnam planning:

> "When hostilities do end, we will be faced with a great opportunity, and a challenge how best to use that opportunity."

We look forward to the return of the time when all our efforts can be directed, as we wish them to be, to the productive and creative pursuits of peacetime, without the nagging fear of idleness and depression that darkened our thoughts of peace in World War II.

Nor do we face the difficulties and dangers of hacking our way back to freedom of enterprise out of a jungle of repressive taxation and economic controls, as after Korea.

It is my purpose here today to develop the proposition that instead -- given the smooth and effective transition in the post-Vietnam period, presumably a time of diminishing levels of defense expenditures, that good policies and a firm awareness of our economic and social goals can provide -- we can have in the post-Vietnam years an expanding economy giving us fiscal dividends, in the form of growing revenues,

that will make available choices among several attractive and beneficial courses of action. The challenge to us, as President Johnson noted, will be how best to use our opportunities.

Important to the best use of these opportunities ahead is a full realization of the relationship of conditions of adequate economic growth, high employment and reasonable price stability to a renewal of the pre-Vietnam policy mix that included the control of increases in Federal spending, tax reduction and diminishing deficits. I want also to emphasize that the balanced free market economy with which we can expect to emerge after Vietnam, barring any radical departures from present conditions in that conflict, is the result of some little noted facts -- chiefly, the facts that during the conflict, except for special Vietnam outlays, Federal spending has been held well below increases in revenues, economic controls of the type that characterized previous wars have been avoided, and drastic tax increases have not been imposed.

I. Fiscal Policy and National Goals Before Vietnam

It is very likely that the Revenue Act of 1964 will come to be regarded as one of the watershed events in the evolution of U.S. economic policy. One of the principal reasons for thinking so is the new directions the Act gave to the uses of fiscal policy. These new directions at long last freed us from concepts that had dominated our efforts to escape from the Great Depression and succeeding recessions, and the high-tax hangovers of World War II and the Korean conflict.

Let me quote from those deeply concerned with the enactment of this legislation.

The change in direction was very well described in a statement by Chairman Mills of the House Ways and Means Committee in the Fall of 1963, while the Revenue Act of 1964 was still being debated. Chairman Mills said:

> "There are two roads the Government could follow toward a larger, more prosperous economy -- the tax reduction road or the Government expenditure increase road. There is a difference -- a vitally important difference -- between them. The increase in the Government expenditures road gets us to a higher level of economic activity with larger and larger shares of that activity

> initiating in Government -- with more labor and capital being used directly by the Government in its activities and with more labor and capital in the private sector of the economy being used to produce goods and service on Government orders. The tax reduction road, on the other hand, gets us to a higher level of economic activity -- to a bigger, more prosperous, more efficient economy -- with a larger and larger share of that enlarged activity initiating in the private sector of the economy -- in the decisions of individuals to increase and diversify their private consumption and in the decisions of business concerns to increase their productive capacity -- to acquire more plant and machines, to hire more labor, to expand their inventories -- and to diversify and increase the efficiency of their production.
>
> "Section I of the bill is a firm, positive assertion of the preference of the United States for the tax reduction road to a bigger, more progressive economy.
>
> "The further meaning of Section I of the bill is that <u>no Government activity is to depend for its justification on the amount it contributes to the total spending of the economy</u>, because we prefer to reduce taxes and allow individuals and business concerns in their own right to make their contribution."

Next, let me cite a few words from a speech on the proposed Revenue Act that I gave in Philadelphia early in 1963:

> "The increased revenues that will flow from a stronger, faster growing economy will not bring us to a balanced budget or surplus unless the Executive and the Congress practice expenditure control. . . That is why the

> President, in his Budget Message (for Fiscal 1964) stressed the matter of expenditure control policy firmly and specifically. He rebutted any notion that rising Federal revenues in the years ahead mean that Federal outlays should rise in proportion to such revenue increases. He established a practical doctrine of expenditure control consistent with other national requirements by asserting that, as the tax cut becomes fully effective and the economy climbs toward full employment, a substantial part of the revenue increases must go toward eliminating the deficit."

In signing the Revenue Act which he had labored so manfully to have enacted, President Johnson said:

> "This is a bold approach to the problems of the American economy. We could have chosen to stimulate the economy through a higher level of Government spending. We doubted the wisdom of following that course. Instead we chose tax reduction and at the same time we made conscientious and earnest attempts to reduce Government expenditures and we are constantly looking at those expenditures."

Not only was expenditure control espoused as the corollary of this historic Act -- after passage of the Act, expenditure control was practiced by President Johnson and his Administration, and it will continue to be.

It is chiefly due to this control of Federal non-Vietnam spending that we can expect to emerge from the present conflict -- barring radical and unforeseen changes -- with a balanced and healthy economy, an economy ready to generate large fiscal dividends at tax rates that spending control has permitted to be held at moderate levels.

The contrary -- that Federal spending has proceeded unbridled in recent times -- is often assumed or asserted. But successful control of Federal expenditures is a fact that can be demonstrated by examination of the record. Let us, then, look at the factual record of the Government's income and outgo since passage of the Revenue Act of 1964.

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First, let us look at how things proceeded from passage of the Act, providing a reduction of no less than $11.5 billion in tax liabilities the first full year it was in effect, and up to the time when the Vietnam conflict imposed large new defense spending requirements.

Fiscal 1965, running from July 1, 1964 through June, 1965, was the first full fiscal year in which the Revenue Act of 1964 was in effect. Although there were substantial Vietnam increases in the last half of Fiscal 1966, here are the Budget results for the two fiscal years when the tax cuts due to the 1964 Act were in force, and before the full impact of Vietnam was felt in the Government's finances:

-- In Fiscal 1965, revenues went up $3.6 billion, but spending declined by $1.2 billion, and the deficit declined by $4.8 billion, or, to less than half the previous year deficit to $3.4 billion.

-- In Fiscal 1966, such as the response of the economy to its lightened tax load that revenues went up by the massive amount of $11.7 billion. But despite the availability of this great addition to the Government's income -- and despite six months in this fiscal year of rapidly rising Vietnam spending amounting to $6.1 billion -- President Johnson held spending increases to less than the revenue increase, that is, to $10.5 billion. And the deficit? Because of the careful control of spending, the deficit declined again in Fiscal 1966, this time by one third, or, to $2.3 billion.

That is the record in the best known -- Administrative -- budget.

But also in the National Income Accounts Budget, the Budget that is most relevant to evaluating the economic impact of government, revenues rose more than spending: revenues were up in the two years by $17.1 billion and outlays rose $15.4 billion. There were no deficits: instead, there was a surplus of $2.3 billion in 1965 and a surplus of $300 million in 1966.

Consequently, on any accounting, it is clear that in the two fiscal years before the full impact of Vietnam was felt, and while the tax rate reductions of the 1964 Act -- and, it should be noted, the excise reductions of 1965 -- were in effect, the Federal Government kept full faith with the intent of the mandate it received to reduce tax rates: expenditures were held under control so that our deficits either declined substantially or were replaced by surpluses.

II. The Record Since Vietnam

What about the two fiscal years for which President Johnson has submitted budgets in which the full cost of Vietnam is reflected? Is it here, you may ask, when the Vietnam costs are fully reflected, that the charge is borne out that Federal spending is rising unchecked?

> The fact is that *including* the costs of Vietnam, and *including* the revenues received from the moderate tax increases made or proposed to help finance those special and temporary costs, the trend to lower deficits is interrupted only in one year -- fiscal 1967 -- and is resumed in the President's Budget for the coming fiscal year, 1968.

I will just give the highlights, if I may, in the three Budgets in use:

In the Administrative Budget: For the two fiscal years together, revenues are expected to rise $22.2 billion and spending is expected to rise $28.1 billion. But this results exclusively from the great surge of Vietnam costs in 1967. For 1968, spending is projected to rise $8.3 billion against a revenue increase of $9.9 billion, while the deficit resumes its downtrend, falling from $9.7 billion in 1967 to $8.1 billion in 1968.

In the Cash Budget: Outlays are up slightly more than revenues for the two years combined: spending is projected at $34.6 billion and revenues at $33.6 billion. Here again, however, the long term trend is restored in the 1968 budget, with revenues projected to rise $13.4 billion against a spending

increase of $11.5 billion, and with the deficit again turning downward, by nearly a third.

In the National Income Accounts Budget: Here also the trend to lower deficits and to holding spending below the rise of revenue was interrupted in 1967, but restored in the Budget: for the two years, spending is up by $36.9 billion and revenues are up by $34.5 billion, with a small deficit for the two years -- of $2.45 billion -- replacing the surpluses of the previous two years. But the 1968 NIA Budget calls for spending to rise by $15.6 billion while revenues rise $17.3 billion, including the proposed 6 percent surtax. Assuming that we get the modest tax increase we are asking for, the 1968 deficit is estimated to be very considerably smaller -- by nearly half -- than the estimated 1967 deficit.

In summary, since the passage of the Revenue Act of 1964, during the fiscal years 1965 through 1968, we have, actual or projected:

Had declining deficits, or we had surpluses, in every year but 1967, in the Administrative, and in the NIA Budgets. In the Cash Budget, the deficit declined two years and rose two years.

Taking the four fiscal years together, and remembering that, first, in two and a half of them, Vietnam spending is largescale, and second, the revenue figures reflect only very modest tax increases, it is nevertheless true that so effective has been the President's program for controlling Federal outlays that:

-- In the Administrative Budget, revenues rose $37.5 billion in fiscal years 1965 through 1968, while spending is up $37.3 billion;

-- In the Cash Budget, revenues are up $52.6 billion, while spending is up $52.1 billion;

-- In the National Income Accounts Budget, revenues are up $51.6 billion while spending is up slightly more, at $52.3 billion.

I think that you will agree that, given Vietnam outlays estimated at $6.1 billion in Fiscal 1966, $20 billion in

Fiscal 1967 and $22.4 billion in Fiscal 1968, this is a truly remarkable achievement in sustained expenditure control.

Obviously, if the Vietnam costs were taken out, there would be growing surpluses in those years. This would be true even if special Vietnam revenues are eliminated, and it is still true even if you believe that the Vietnam spending indirectly increased revenues by stimulating the economy.

It is this situation, a situation of control of Federal spending such that we are able to finance the Vietnam conflict with only modest tax increases -- indeed, for the most part to hold increases in spending under increases of revenue, and thereby keep our deficits declining in almost all years -- that forms the basis for the concluding part of my speech to you.

III. Fiscal Policy and National Goals After Vietnam

The Budget results we have just reviewed separate myth from fact as regards Federal expenditure policy since the passage of the Revenue Act of 1964. A clear understanding of these realities is needed for the extremely important business of looking ahead to the post-Vietnam period.

Federal outlays are being used -- as the Revenue Act of 1964 directed -- not to spur the economy, but to achieve national goals, within an order or priority. As an example.

> From Fiscal 1966 through Fiscal 1968, while the costs of Vietnam rose by nearly $15 billion more than revenues -- including the proposed surtax -- are estimated to increase, spending in most parts of the Budget was checked so that room was made for increases of nearly $16 billion in the high priority domestic programs for the improvement of education, housing, community development and health, and labor and welfare.

This means, for one thing, that we shall not confront the post-hostilities period with our domestic programs in disarray, and the country down at the heel. Revenues that can be saved from elsewhere are being used in programs of high payoff potential for the nation's long term economic and social well being.

Let us look, with this background, at the post-Vietnam goals the President established in his Economic Report, and then at the means we shall have for meeting them.

The President instructed the relevant agencies of the Executive Branch, under the leadership of the Chairman of the Council of Economic Advisers, to begin immediately a major and coordinated effort to review the country's readiness for the quick adjustments that will be necessary when the welcome day of peace returns. He asked the Post-Vietnam Policy Committee, of which I have the honor to be a member, to draw up reports in six general areas, and thereafter to keep readiness planning in those and related areas continuously up to date.

It is notable, I think, that the first item on the President's post-Vietnam agenda was "possibilities and priorities for tax reduction." Next came preparation, with the Federal Reserve Board, of plans for quick adjustment of monetary and financial policies to conditions of peace. He asked also to be advised as to:

-- the priorities, short and longer range, for expansion of Federal programs to meet the needs of the American people; the future direction of Federal financial support to States and the localities; and the means of a smooth transition from war to peace, for the men in the Armed Forces and for workers, companies and communities now supplying our defense needs.

On the basis of these instructions, the inter-agency task force headed by Chairman Ackley is at work in nine subject areas. These include plans for demobilization; the nation's peacetime fiscal-monetary needs; spending priorities; tax policy for peacetime; Federal-State-local relationships; the liquidity problems of individuals, businesses and small government units after peace returns; the balance of payments outlook in peacetime; regional and industrial problems, and manpower problems.

A look at this work plan shows that, aside perhaps the subject of demobilization, all the rest depend heavily upon the tax policy that we shall adopt in the future, and -- very importantly -- upon continued responsible use of the spending powers of the Government.

What is at stake is the shape, the size and, most of all, the character of the American body economic after Vietnam. Thus, our post-Vietnam planning brings us back again, as in 1964, face to face with the question:

> Will we choose the pursue the development of the nation in the future along the path of a bigger and bigger role for government -- particularly, the Federal Government -- by way of taxation high enough to provide the funds for government to take an ever increasing share of the national useof labor and capital to produce for the Government, or,
>
> Will we opt, again as in 1964, in favor of the tax reduction route to economic and social expansion and improvement, a course permitting the main weight of economic decision making, and the decisive share of economic activity, to continue to reside in the private sector, subject to the Government's role of arbitrator and regulator in the discharge of the Government's duty to provide for the general welfare.

It is difficult for me to believe that anyone familiar with the record since 1964 that we have just reviewed could make any choice except for the route of tax reduction and reform. It is my firm belief -- and policy -- that this will be the case. One of the strongest reasons for thinking so is that the last few years, as we have just seen, have witnessed a willingness, in fact, a successful determination, on the part of the Federal Government to demonstrate that in a process of successive tax reductions, the Government both can and will hold spending in control so that the trend will be to diminished deficits and, finally, to surpluses.

There is a further very important indication that the future should be one of a long term trend to lower taxation in the United States. This is to be found in the recent study by the staff of the Joint Economic Committee of the Congress,

entitled "U. S. Economic Growth to 1975: Potentials and Problems". This found that, if current Federal spending and tax policies -- other than those associated with Vietnam -- were continued unchanged, there would be -- as early as 1970 -- a Federal surplus of some $15 billion, and, only five years thereafter, a surplus of almost $44 billion.

Such a massive removal of purchasing power from the economy could of course be economically paralyzing, and in the process the realization of any surplus at all would be precluded. Consequently, if this projection is correct -- and I have used the more modest of two possibilities set forth in this very careful study -- either Federal spending must rise far above its present annual level, or there will be room for tax reduction spreading over many years and of a large scale nature.

Once again, looking at the facts of the last few years, it is my strong belief that we should -- and will -- choose to take a large portion of this substantial fiscal dividend in the future in the form of a lighter tax burden on the initiative and incentive of people and of businesses.

This is suggested even more strongly if we look beyond the record of governmental income and outgo for the past few years, to see what tax reduction and controlled Federal spending have meant to the economy at large. Under the stimulus of a steadily lightened tax burden, together with freedom from growing Governmental encroachment in the economy, the United States has experienced the longest, most beneficial, and best balanced economic and social expansion and improvement that is on record.

During these years, up to the time in 1965 when Vietnam introduced strains that could not immediately be absorbed, we were giving an unprecedented demonstration of strong economic growth together with price stability. There is every reason to think that, even in the presence of Vietnam, we are already getting back on that track. There is no doubt in my mind that if we get back on it and stay on it in the post-Vietnam period -- and assuming that period to be what we all hope, a time of stable or declining defense outlays -- we can be assured of achieving our national goals together with price stability and the further strengthening of free interprise.

Time does not permit us to look into a multitude of other subjects that will be of very great importance in the post-Vietnam period. These include such subjects as, the continued strengthening of the partnership in responsible economic conduct -- through some informal means such as our present guidelines -- that has grown up in recent years between the government and the business community; the vital importance of generous spending, in both the private and the governmental sectors, for the support of education and for the work and management training and retraining that alone can guarantee a continued high rate of gain in American productivity; the closely related problem of contributing to the solution of our balance of payments problem by maintaining and increasing our trade surplus; and the problem -- again closely related to the maintenance of a high growth rate of productivity -- of eliminating the low productivity sector of the American work force by the elimination of discrimination, due to race or any other cause, in opportunities for education and employment.

But, given all these related opportunities, as we look forward to the coming days of peace after Vietnam, we must put continued tax rate reduction high on our agenda. Only by so doing can the Federal Government in the words of President Johnson "take into account the impact of its total spending and its taxing on our economic life, on markets, on jobs, on wages, on prices, on capital investments".

oOo

THE SPENDING AND INCOME RECORD
FISCAL YEARS 1964-1968
(Billions of Dollars)

Budget	Fiscal Years	Revenues	+ or −	Revenues	Spending	+ or −	Spending	Deficit	+ or −	Deficit	(Vietnam)
Administrative Budget	1963	86.4			92.6			6.3			
	1964	89.5	+	3.1	97.7	+	5.0	8.2	+	2.0	
	1965	93.1	+	3.6	96.5	-	1.2	3.4	-	4.8	
	1966	104.7	+	11.7	107.0	+	10.5	2.3	-	1.2	(6.1)
	1966-65		+	15.3		+	9.3				
	1967	117.0	+	12.3	126.7	+	19.8	9.7	+	7.5	(20.0)
	1968	126.9	+	9.9	135.0	+	8.3	8.1	-	1.6	(22.4)
	1967-68		+	22.2		+	28.1				
Cash Budget	1963	109.7			113.8			4.0			
	1964	115.5	+	5.8	120.3	+	6.6	4.8	+	.8	
	1965	119.7	+	4.2	122.4	+	2.1	2.7	-	2.1	
	1966	134.5	+	14.8	137.8	+	15.4	3.3	+	.6	
	1965-66		+	19.0		+	17.5				
	1967	154.7	+	20.2	160.9	+	23.0	6.2	+	2.9	
	1968	168.1	+	13.4	172.4	+	11.5	4.3	-	1.9	
	1967-68		+	33.6		+	34.6				
NIA Budget	1963	110.2			111.4			1.2			
	1964	115.5	+	5.3	116.9	+	5.5	1.4	+	.2	
	1965	120.6	+	5.1	118.3	+	1.4	2.3 S/	-	3.7	
	1966	132.6	+	12.0	132.3	+	14.0	.3 S/	+	*	
	1965-66		+	17.1		+	15.4				
	1967	149.8	+	17.2	153.6	+	21.3	3.8	+	4.1**	
	1968	167.1	+	17.3	169.2	+	15.6	2.1	-	1.7	
	1967-68		+	34.5		+	36.9				

S/ Surplus
* Reduction of Surplus
** Surplus of .3 to deficit of 3.8

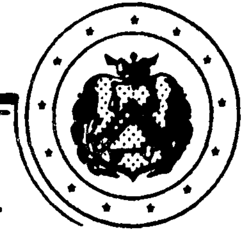
Summary

Budget	Years In Which Deficit Declined or There was a Surplus	Years When Deficit Increased
Administrative	1965, 1966, 1968	1967
Cash	1965, 1968	1966, 1967
N.I.A.	1965 s/, 1966 s/, 1968	1967

s/ =surplus

Budget	Rise of Revenues	Rise of Outlays
Administrative:		
1965 & 1966	\$15.3 billion	\$ 9.3 billion
1967 & 1968	\$22.2 billion	\$28.1 billion
1965 - 1968	\$37.5 billion	\$37.3 billion
Cash:		
1965 & 1966	\$19.0 billion	\$17.5 billion
1967 & 1968	\$33.6 billion	\$34.6 billion
1965 - 1968	\$52.6 billion	\$52.1 billion
N.I.A.		
1965 & 1966	\$17.1 billion	\$15.4 billion
1967 & 1968	\$34.5 billion	\$36.9 billion
1965 - 1968	\$51.6 billion	\$52.3 billion

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR IMMEDIATE RELEASE

May 12, 1967

SUBSCRIPTION FIGURES FOR CURRENT REFUNDING

The results of the Treasury's current exchange offering of 4-1/4% notes dated May 15, 1967, maturing August 15, 1968, and 4-3/4% notes dated May 15, 1967, maturing May 15, 1972, open to holders of $22,142 million of securities maturing May 15 to August 15, 1967, are summarized in the tables below. Total subscriptions amount to $11,758 million, including $10,397 million in exchange for securities maturing May 15 and June 15 leaving $780 million, or 7.0%, of such securities for cash redemption.

Federal Reserve District	Exchanged for the 4-1/4% Notes, C-1968	Exchanged for the 4-3/4% Notes, B-1972
Boston	$ 41,779,000	$ 77,900,000
New York	5,348,809,000	3,771,544,000
Philadelphia	64,169,000	55,843,000
Cleveland	112,457,000	170,302,000
Richmond	73,667,000	48,951,000
Atlanta	90,274,000	125,781,000
Chicago	249,601,000	441,793,000
St. Louis	96,667,000	136,470,000
Minneapolis	37,614,000	71,427,000
Kansas City	66,355,000	121,017,000
Dallas	28,504,000	92,944,000
San Francisco	213,972,000	189,204,000
Treasury	20,343,000	10,513,000
Total	$6,444,211,000	$5,313,689,000

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

	4-1/4% Notes C-1968		4-3/4% Notes B-1972		Total	
	Amount	No. Sub.	Amount	No. Sub.	Amount	No. Sub.
Individuals 1/	$ 77	2,754	$ 102	5,021	$ 179	7,775
Commercial Banks (Own account)	1,213	2,743	1,639	6,066	2,852	8,809
All others	724	1,179	997	2,379	1,721	3,558
Totals	$2,014	6,676	$2,738	13,466	$4,752	20,142
Federal Reserve Banks and Government Accts.	4,430		2,576		7,006	
Grand Totals	$6,444		$5,314		$11,758	

1/ Includes partnerships and personal trust accounts.

F-919

STATEMENT OF THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
ON THE PUBLIC DEBT LIMIT
MAY 15, 1967, 10:00 A.M. EDT.

Mr. Chairman and Members of the Committee:

I am here today to talk about financing a war. It is a costly war and it must be financed in a manner consistent with preserving sound, balanced, and fruitful economic growth at home while we are fighting to preserve freedom in a far-off corner of the world.

Fiscal responsibility means differing things in differing circumstances.

In a wartime context it must include the courage and willingness to vote to raise the money that is as necessary as the guns, planes and materiel needs of our Forces in Southeast Asia. Those who support our national effort to defend freedom from communist aggression in Vietnam do not hesitate to vote overwhelmingly for appropriations to support our Forces there. They will equally support legislation needed to facilitate the financing of those appropriations.

Fiscal responsibility means, in contemporary circumstances, that in financing the war we should obtain as much as possible from current tax revenues as the economic outlook permits.

It means that expenditures in excess of revenues have to be financed with debt, and that we must have the ability to borrow the needed amounts of money in the market. We do not intend to be in the position of "squeezing a buck" where it can cost the lives of our soldiers or the freedom of a democratic people.

Finally, fiscal responsibility means that we must have flexibility in our borrowing to manage the public debt as a constructive force in the economy.

As you know, the present temporary ceiling of $336 billion extends only through June 30 of this year. On July 1, the limit reverts to the permanent level of $285 billion. We expect the actual debt to be about $327 billion on June 30, and to rise considerably above that level in coming months, so it is obvious that prompt action is needed.

It is important not only to take timely action but wise action as well. At the time of the last debt limit hearings, there was a need to press for the speediest possible action and I urged you to defer consideration of certain matters related to the debt limit but deserving a more deliberate approach. While the available time between now and June 30

is not very long, I believe it _is_ timely now to consider revision in the permanent debt ceiling and modification of the 4-1/4% rate ceiling. Action on both of these is needed to provide for sound financing of our national needs -- including particularly our military needs.

Lest there be any misapprehension about the nature of our needs, or about the impact of Vietnam on our economy and our budget, let me cite the record.

- In Fiscal Year 1966, the special cost of Vietnam was $6.1 billion. Absent this cost, and absent also the $1.2 billion of extra revenue from the Tax Adjustment Act of 1966, which was enacted because of Vietnam, the administrative budget would have been in _surplus_ by $2.6 billion instead of in _deficit_ by $2.3 billion. And the actual deficit, incidentally, was the smallest since Fiscal Year 1960.
- In Fiscal Year 1967 the special cost of Vietnam will be a little over $20 billion. Eliminating that cost along with the $4.6 billion of revenues from the Tax Adjustment

Act of 1966, there would be a budget surplus this year of some $5 billion -- instead of the deficit of roughly $11 billion that now appears to be in the making.

- For Fiscal Year 1968, it was estimated last January that the special cost of Vietnam would be $22.4 billion. Without that Vietnam cost, and also without the added tax measures proposed in January, the 1968 budget was estimated to yield a surplus of $8.8 billion rather than a deficit of $8.1 billion.
- On a revised reading for Fiscal Year 1968, we would place Vietnam costs a little higher, and total receipts a little lower, to yield an estimated deficit about $3 billion greater -- that is, in round numbers, $11 billion. But the point still stands that, absent Vietnam and absent the special tax measures proposed in January we would be looking at a substantial budget surplus rather than a sizable deficit.

Clearly, but for Vietnam, we would be facing potential Federal surpluses, and trying to decide how to employ those surpluses among tax reduction, debt reduction, and expenditures for needed domestic programs to raise the quality of life in America.

But reality would have it otherwise and instead of the welcome task of distributing fiscal dividends we have the difficult, yet necessary, task of financing a war that, however distant geographically, is very close in its meaning to our lives and ideals.

A number of steps have been taken already to ensure that the special demands of Vietnam are financed soundly, in a balanced economy without the panoply of cumbersome direct controls that have been employed in past periods of heavy military expenditure. This approach has been accompanied by a record of upward price movement far below those that characterized World War II or the Korean War, and even below that in the major peacetime expansion of the mid-1950's.

- In early 1966 the Tax Adjustment Act, passed promptly by the Congress, deferred declines in certain excise taxes and put corporations and individuals on a more current footing in their payment of income taxes.

- Administrative measures were taken in the spring of 1966, and extended to a wider area in the past several months to further speed the payment of corporate income taxes and excise taxes.
- The investment tax credit was suspended in October 1966, not as a revenue measure but as a selective measure to help slow down an area of spending that was putting the economy and the financial markets under excessive pressure; as soon as it was clear that the special reasons for suspending the credit no longer existed, the President recommended lifting the suspension and the Congress is acting on that recommendation.
- As part of our sound financing program, we have launched the largest U. S. Savings Bonds campaign since World War II. Holdings of Savings Bonds, which are the most stable and noninflationary form of debt financing that can be devised, have increased from $48.8 billion at the end of June 1965 to $50.6 billion in April 1967. Over$1.1 billion

has been added to public holdings of these bonds just in the past year.

- This year we are supplementing the sale of regular Savings Bonds with a new Freedom Share savings note, which carries a higher interest rate than Series E Savings Bonds and must be held at least a year before redemption. It has been very carefully designed so as to produce additional savings while not diverting savings from thrift institutions, so we do not look to the Freedom Share to bring in multiple billions of dollars -- but we do expect it to make a significant contribution to sound financing of the deficit.
- Civilian expenditure programs have been held down to a minimum consistent with meeting basic national objectives in the many areas that we cannot afford simply to neglect because we are fighting a costly war.
- We have also proposed a 6% tax surcharge to defray additional military expenditures and keep

the overall Federal deficit within bounds that the real economy and the financial markets can handle. We need to pay for the increased cost of the war projected for the next fiscal year. We certainly do not want to risk resumption of the monetary strains and excessively high interest rates that occurred last year, and that means the Government's own demands on the credit markets must be held down.

I am not here today to talk about the tax surcharge, however. That will be taken up in due course. Let me make a brief comment about the need for the increase. It will be needed and the economic evidence generated in the months since it was proposed has strengthened my conviction on this score. The economy neither needs nor can tolerate the kind of stimulus it would receive in the second half of this year from a Federal deficit of the size that would emerge without the proposed tax surcharge, given the other changes in the situation that have been and are occurring.

With or without the tax surcharge, however, we must have flexibility to finance the war and manage the nation's fiscal

affairs prudently. That means not only having adequate room under the debt limit to cover the wide range of contingencies present at this time, but also having flexibility to borrow throughout the maturity spectrum in the interest of sound debt management.

A year ago, Members of this Committee will recall, I appeared here to request a temporary rise in the debt limit to $332 billion, to extend through Fiscal Year 1967. I pointed out then that the budget figures were uncertain, and I re-emphasized this point when the Committee provided an increase only to $330 billion. I noted then that it might be necessary to return before the end of Fiscal 1967 to provide additional leeway for the debt.

It was indeed necessary to return for an interim increase. The debt ran higher by the middle of Fiscal 1967 largely because of the bigger than expected rise in expenditures for Vietnam, and the impact of tight money markets in impeding financial asset sales, raising interest costs, and adding to loan disbursements in areas particularly hurt by tight money markets.

The Congress responded promptly, early this year, in raising the temporary debt ceiling to $336 billion. This

provided sufficient leeway to resume policies of careful and prudent cash management -- after a period of some weeks when we operated hand-to-mouth in our cash management.

The higher limit, while it provided elbow room, was not taken as a license to spend or incur debt freely. Indeed, the highest point of debt actually reached after the limit was raised was $333,227 million on March 14 -- well within the $336 billion ceiling. By June 30, 1967, as already noted, we project that the debt will be down to about $327 billion.

Our latest estimate of the administrative budget for Fiscal Year 1967 yields a deficit of around $11 billion -- up $1.3 billion from the estimates submitted last January. Receipts are estimated to be down $.5 billion, reflecting a number of minor revisions, including the early restoration of the investment tax credit, retroactive to March 9. Expenditures are working out to be approximately $500 million to $750 million higher than estimated in January, as the Director of the Budget will develop.

The Budget submitted last January for Fiscal Year 1968 provided an estimated level of expenditures of $135 billion, and revenues of $126.9 billion, yielding an administrative

budget deficit of $8.1 billion. We do not yet have a firm basis for making a thoroughgoing revision of these estimates, but a rough interim revision would place the deficit about $3 billion higher -- or around $11 billion. The $3 billion difference is due about equally to higher spending and lower revenue.

The higher estimate of expenditures, in effect, carries through the slight upward drift that is already affecting the current fiscal year. The lower estimate of revenues makes rough allowance for restoration of the investment tax credit, and carries into Fiscal 1968 the same slight shortfall on general revenues that is observable in the current year. It assumes the 6% surcharge as of July 1.

Even after this interim revision, however, a number of uncertainties remain with respect to the estimates for Fiscal Year 1968, both on revenue and expenditures. I believe these are of a scope that calls for a far different approach to the debt limit than has been followed in the recent past.

On the expenditure side, I can only reiterate that wars are by their very nature uncertain, and so are the expenditures needed to carry them out. Our estimates of Vietnam spending

are not subject to the particular source of underestimate that occurred this current fiscal year, when the initial estimates rested on the assumption that the conflict would end by June 30, 1967. Still I must say frankly that a margin of underestimate, or overestimate -- but more likely the first -- is always a possibility. These are contingencies that must be given due regard.

On the revenue side, one element of uncertainty is the tax surcharge which the President recommended early this year. Let me underscore again that there is no wavering in the Administration's intentions about the surcharge. It has been, and remains, a definite part of the fiscal program. But since it has yet to be enacted, and since Congressional enthusiasm has yet to be demonstrated, it would be presumptuous for me to regard it in any other light than as a contingent item.

Also on the revenue side, I must regard the expected yield of existing tax rates as uncertain in some degree, simply because of the unknowns involved in predicting income and profit levels. One element in this picture is the level of corporate profits. Our estimate in January was that corporate profits in calendar year 1967 would slightly exceed

the 1966 level. I am not prepared to give a revised estimate at this point, but realistically I must recognize that reports for the first quarter indicate a profits level below that of a year ago. This can change, and I believe it will, but the corporate profits tax receipts must remain a factor of uncertainty and contingency.

The practice in recent years, in estimating debt limit needs, has been to project a level of debt for the year ahead on the basis of a constant $4 billion cash balance, and then to request a $3 billion allowance for contingencies. I believe this practice is not suited to present circumstances for two reasons:

- First, the contingencies just outlined are of a number and scope that render the $3 billion allowance inadequate. It is worth noting that quite apart from the special uncertainties affecting 1968, the standard $3 billion allowance dates back to 1958, when the Federal budget and the national economy were only a little over half the size in prospect for Fiscal Year 1968.

- Second, I think it is timely to change the permanent debt ceiling, which has remained at $285 billion since 1959 -- and if that is done the ceiling should be revised to a level that stands a reasonably good chance of lasting for longer than the one year interval that has typified changes in the temporary ceiling.

As Members of this Committee know, the present $285 billion permanent ceiling hangs as "sword of Damocles" over the Congress -- and over the Secretary of the Treasury -- requiring legislative action on the debt ceiling by June 30 each year lest the limit drop down to an obviously unrealistic level. Thus it makes good sense to revise this ceiling. But in so doing there would seem to be little gained in moving to a ceiling that did not offer some reasonably good prospect for durability.

Accordingly, rather than ask for another rise in the temporary ceiling that would last only through Fiscal Year 1968, I recommend a significant increase in the permanent debt ceiling -- to a level that will provide adequate margin for Federal debt operations and cash management at least through Fiscal Year 1969.

There is ample precedent, from the World War II period, for providing large debt limit increases that made sure the limit would not be a constraint on necessary wartime finance. From 1941 to 1945, annual increases in the debt limit ranged from $40 billion to $85 billion. At the end of the war there was a substantial margin of extra leeway and the debt limit was cut back by $25 billion.

Based on that experience, I believe it would be entirely appropriate to increase the permanent ceiling to $375 billion at this time. At the same time, I can well understand a desire on the part of Congress to set a limit that, while not inhibiting the financing needed for Vietnam, stayed closer to near-term foreseeable contingencies than would a $375 billion permanent ceiling at this time.

Therefore, my recommendation to the Congress and to this Committee is that you approve a permanent ceiling now of $365 billion.

In order to estimate an appropriate permanent debt limit level that would carry through Fiscal Year 1969, I call your attention to the rough rule-of-thumb which relates debt limit needs in a given year to the peak debt reached in the previous

year plus the budget deficit in that previous year. This guiderule has worked reasonably well -- not perfectly, but it has on most occasions provided a reliable first approximation.

As indicated in the table attached to this statement, the projected peak level of debt in Fiscal Year 1968 is $345.2 billion. Adding to this the prospective 1968 deficit, now roughly estimated at about $11 billion, one arrives at about $356.2 billion as an approximate peak debt level in Fiscal Year 1969. That is before any contingency allowance.

But as I have mentioned, the deficit in 1968 is vulnerable to greater than usual uncertainties, and we must take account of these in determining a prospectively secure debt limit level to carry through Fiscal Year 1969.

- One contingency is that Vietnam spending could bulge well above the current estimate.
- Another is the timing of the passage of the tax surcharge.
- And still another is the possibility that corporate tax receipts would fall short of estimates.

If I were to "price out" each of these contingencies separately, the total could conceivably be placed somewhere in a $10-13 billion range of additional 1968 deficit. It is not reasonable, of course, to expect all the contingencies to work adversely; significantly higher military spending, if it occurred, would make tax action all the more imperative, and would also bolster revenues at existing tax rates.

Still, the uncertainties are such that I believe it prudent to add a contingency allowance approaching $9 billion to the prospective peak 1969 debt level of $356.2 billion -- leading to the recommended permanent debt ceiling level of $365 billion. In effect, this would provide an extra contingency allowance nearly $6 billion above the usual $3 billion allowance. In looking ahead for two years or more, this does not seem unreasonable.

You Members of this distinguished Committee may ask: "Mr. Secretary, do you really need a ceiling of $365 billion to go through Fiscal Year 1969? Couldn't you shave it down?"

The answer is that we probably do not need quite this high a limit and perhaps it could be shaved down. But it goes to the very nature of a contingency allowance that one

cannot know precisely how much is needed. I would feel reasonably confident about being able to finance the war and meet the Government's financial commitments responsibly through Fiscal Year 1969 with a permanent limit set at $365 billion. We might be able to get by with less -- but it is more risky. It seems plain to me that if the permanent ceiling is changed at all it should be changed significantly, and to a level that will stand a test of time.

Before turning to the interest rate ceiling, let me note that if we were seeking a debt limit to cover Fiscal Year 1968 _alone_, we would have to reckon with the same contingencies that I have already mentioned.

Facing these contingencies, which could move the debt significantly higher than the amounts shown in the attached table, it would not be prudent to plan a tight limit for 1968 with only a $3 billion contingency allowance -- and certainly not with the even smaller contingency allowance that was provided in the debt limit enacted a year ago for Fiscal Year 1967.

If the contingencies referred to work out adversely, it could turn out that 1968 was one of those occasions when the

rough rule-of-thumb relating this year's debt limit need to last year's deficit and last year's peak debt went awry. This has happened before when the deficit jumped sharply from one year to the next. This means that the same kind of ample contingency allowance we recommend for a permanent ceiling to cover Fiscal Year 1969 is needed for Fiscal Year 1968 as well.

The 4-1/4% Interest Rate Ceiling

Sound Government financial policy requires

- first, a combination of tax and spending levels that limits the size of the Federal deficit, even in a period of wartime spending needs
- second, a debt ceiling adequate to permit necessary borrowing
- and third, an ability to structure the outstanding debt to be a stabilizing force, and not a destabilizing force, in the economy.

Because of the 4-1/4% interest rate ceiling on Treasury bonds, the Treasury has been unable to sell marketable debt issues maturing in over 5 years since May 1965 -- just before

events in Vietnam led to an escalation not just in our military effort but also in our economy, credit demands, and interest rates.

As I mentioned earlier, the intensified Savings Bonds campaign has made a contribution to an improved debt structure, and it will continue to do so with the introduction of the Freedom Share this year. But Savings Bonds and Freedom Shares cannot do the whole job. Good maturity balance must be achieved and maintained in the marketable debt, too.

In the early 1960's, with long-term interest rates holding relatively steady, the Treasury made big strides in improving the maturity structure of the marketable debt -- relieving the under-5-year area of heavy maturities and issuing instead a large volume of intermediate and longer-term debt.

Chiefly through the use of advance refundings -- inducing holders of relatively short-term issues to exchange into relatively long-term issues -- the average maturity of the marketable debt was raised from 4 years 2 months in September 1960 to 5 years 5 months in January 1965. The proportion of the marketable debt maturing within 5 years was reduced from 78% in September 1960 to 67% in January 1965.

The wisdom of these efforts to lengthen the debt was demonstrated last year, when very high rates had to be paid on refundings. Fortunately, the magnitude of the refunding job had been substantially reduced because of previous advance refundings.

Since early 1965, the trend has been toward a shorter average maturity and a heavier concentration of debt within the 5-year area. From an average maturity of 5 years 5 months in January 1965, the marketable debt shortened to 4 years 5 months at the end of April 1967. The proportion of the marketable debt maturing within 5 years has grown from 67% to 77% over this period.

At the end of June 1967 the average maturity of the marketable debt will be about 4 years 6 months -- lengthening slightly from the April level because of the May refunding operation and the retirement of the June tax anticipation bills. Nevertheless, the June level would be 5 months shorter than a year earlier.

What might happen to the debt structure over, say, the next year and a half, if the Treasury issued no debt maturing in over 5 years? Assuming that new borrowings and refundings are handled about in line with patterns during the past two

years, we would estimate the average maturity of the marketable debt by the end of December 1968 at 3 years 8 months -- well under the 1960 low point. Some 85% of the marketable debt would mature within 5 years, including nearly 50% maturing within one year.

This shortening tendency is unwelcome. It presents a problem that should be dealt with in an orderly and systematic way, so that we do not face an excessive pile-up of maturing debt. Such a pile-up, if it came at a time of tight money and high rates, would mean that the Treasury had to compete for investment funds on most unfavorable terms -- bidding against itself and against other borrowers for the favor of investors. It is this kind of frantic competition that could send short-term rates up sharply and push long-term rates much higher, too, with disruptive effects throughout the capital markets.

Further, the heavy pile-up of relatively short debt could make it more difficult for economic stabilization policies to operate smoothly in the economy. Heavy amounts of short-term debt represent potentially excessive liquidity in the hands of the holders. This could mean that the monetary authorities

would have to take more drastic restraining action than otherwise -- in terms of interest rate effects -- in order to achieve restraints on total demand.

These are not imminent dangers, but they are potential problem situations that can be avoided or minimized if we would undertake a careful, orderly program of debt structuring that stretched out some short-term debt into the longer area.

Certainly I would much prefer to be able to accomplish the needed improvements in the debt structure at low rates of interest -- low enough to come within the present 4-1/4% statutory ceiling. But while rates have come down since last summer's high point they are not at a level that would permit long-term financing under the 4-1/4% ceiling, and I would like to be able to take some steps -- even if they are small-sized steps -- on the debt structure problem while aiming toward further progress in reducing the overall level of interest rates.

In appearing before this Committee a year ago, and again earlier this year, I responded to questions on the 4-1/4% ceiling with the comment that I would welcome some additional flexibility in debt management, to be able to sell bonds

yielding more than 4-1/4% when market conditions made this appropriate. I did not specifically request such authority, however, given the time pressure to get speedy action on the debt ceiling and the fact that relatively high market interest rates did not make the prospect of long-term borrowing too attractive in any event.

Rates are still fairly high, but not as high as they were, and while we do have a time problem on the debt limit, I consider the debt maturity structure a matter that should receive attention, too.

It is against this background that I now ask the Congress, through this Committee, to provide some limited relief from the 4-1/4% ceiling, so that progress can be made in improving the debt structure and achieving more flexible debt management.

Rather than remove the ceiling entirely -- which in fact would provide more flexibility that is really essential -- I recommend two modifications that would permit us to follow a program of orderly debt management, avoiding an excessive bunching up of short-term debt.

- First, extend the maximum maturity on Treasury notes to 10 years from the present 5-year limit, so that this flexible instrument -- which is not

under the 4-1/4% rate ceiling -- could be used to greater advantage in tapping intermediate term investments.

. Second, permit the sale of up to $2 billion of Treasury bonds without regard to the 4-1/4% ceiling.

Even greater flexibility would be provided by permitting the sale of up to $2 billion of bonds each year without regard to the ceiling rate, but I am satisfied at this time to ask for just one $2 billion authorization.

Coverage of the Debt Limit

Finally, there is the question of coverage of the debt limit. At the debt limit hearings before this Committee earlier this year a good deal of discussion centered on whether various contingent liabilities of the Government, including the participation certificates in pools of financial assets held by Federal agencies, should be subject to the debt limit.

The discussion at those hearings brought out clearly that the participation certificates do not now, as a matter of law, come under the debt limit. Futher, it was our position that while the law could be changed to include participation

certificates in a debt limit, then in the interests of consistency a large body of other contingent liabilities would merit similar treatment. This could mean including obligations over which neither the Treasury nor other Executive departments or agencies exercises sufficiently close control to apply a meaningful limit.

In the time since the last set of debt limit hearings, we have devoted further study to this question. Our conclusion is that by far the preferable course at this time is to make no change in present debt limit coverage. This is not because we feel the present arrangements are incapable of improvement, but because the proposals that have been discussed do not appear to us to offer the prospect of significant improvement, and because this is a topic that deserves careful, unhurried consideration. Indeed, the report of your Committee, following the debt limit hearings earlier this year, stated:

> "It is hoped that the Committee will be able to consider the proper definition of the debt subject to limitation at a later date. In this consideration, the Committee

> hopes to have the benefit of the recommendations of the Commission the President will appoint to review budgetary concepts." (House Ways and Means Committee, Report on the Public Debt Limit, February 6, 1967, page 9.)

The Commission referred to in this passage has been appointed and has had its first meeting, but is not expected to report even preliminary recommendations until later this year.

I do not believe one should merely sit back and expect this Commission to supply easy answers to this complex question, but since the matter <u>can</u> be deferred, it seems appropriate to continue studying this question, and particularly to consider it in light of comments or recommendations that the Commission might have.

Notwithstanding my strong recommendation that this question be deferred, you may still wish to consider the matter now. With that in mind, I have prepared a separate statement as a basis for questions and answers which will provide you with the thinking we have done on this matter in the past few months.

Conclusion

The main task before you, of course, is to take action on the amount of the debt limit itself, and on the related interest rate ceiling. There is sufficient, but by no means over-abundant, time to act before the end of June. It is imperative that the Congress act by that time, because the debt limit under present law drops to $285 billion on July 1, 1967.

Our national commitments must be met in the financial area, as they are being met on the battlefield. It is not conceivable that the Congress would shirk its responsibilities by leaving the Government unable to manage the nation's finances soundly and prudently in carrying out the programs authorized and approved by the Congress, particularly in wartime, and when the financing of the war effort is the occasion for a larger call on the private market. I urge you to adopt the $365 billion permanent debt ceiling, and to modify the interest rate ceiling as I have recommended.

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION

(Based on constant minimum operating cash balance of $4.0 billion)

FISCAL YEAR 1968
(In billions)

	Operating Cash Balance (excluding free gold)	Public Debt Subject to Limitation
1967		
June 30	$4.0	$324.3
July 15	4.0	326.4
July 31	4.0	327.2
August 15	4.0	329.7
August 31	4.0	331.8
September 15	4.0	335.0
September 30	4.0	330.9
October 15	4.0	334.7
October 31	4.0	334.8
November 15	4.0	337.3
November 30	4.0	338.3
December 15	4.0	341.9
December 31	4.0	337.2
1968		
January 15	4.0	339.3
January 31	4.0	338.5
February 15	4.0	339.4
February 29	4.0	341.1
March 15	4.0	345.2
March 31	4.0	342.9
April 15	4.0	344.9
April 30	4.0	337.3
May 15	4.0	337.4
May 31	4.0	340.2
June 15	4.0	342.7
June 30	4.0	335.3

May 15, 1967

SUPPLEMENTARY STATEMENT OF THE HONORABLE
HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE WAYS AND MEANS COMMITTE
ON THE PUBLIC DEBT LIMIT
MAY 15, 1967, 10:00 A.M. EDT.

This statement provides additional comment on the coverage of the public debt limit. It supplements the point made in my main statement -- that our definite preference and recommendation is that the coverage of the debt limit not be changed.

One recurring point in the discussions of debt limit coverage is that the current debt limit concept is not as clean-cut as one might wish. The limit covers not only the debt obligations issued by the U. S. Treasury, under the Second Liberty Bond Act, but also a modest amount of other debt which, by statute, is guaranteed as to principal and interest by the United States.

The main items under the limit in addition to Treasury debt at the end of April 1967 were $19.8 million of District of Columbia Armory Board Stadium Bonds, and about $485 million of Federal Housing Administration debentures. These are contingent liabilities. They are payable in the first

instance out of, in one case, the net revenues of the D. C. Stadium and, in the other, various FHA insurance funds. In contrast, what stands behind U. S. Treasury obligations is the taxing power of the United States Government.

Another clean-up would deal with certain minor items of direct Treasury debt now excluded from the statutory limit. The limit excludes debt issued under statutes other than the Second Liberty Bond Act and old currency items for which the Treasury has assumed responsibility. These totaled $266 million on April 30, 1967. Their inclusion and the exclusion of the contingent items mentioned earlier would put the debt subject to limit and the gross public debt on the same basis.

Before turning to the question of contingent liabilities not now under the limit, some other variations of debt limit coverage might be considered. One possibility would be to remove from the debt limit the Treasury obligations held by the trust funds, Federal agencies and the Federal Reserve System. That would take away roughly $115 billion from the current coverage. The rationale might be that the limit need cover only debt sold to the private market, not to official accounts.

Another variant might be to deduct from the debt limit Federally held direct loans outstanding. This "net debt" concept would reduce the debt subject to limit by about $34 billion. A feature of this concept is that the sale of participation certificates would not reduce the debt subject to limit because the financial assets to be put into the pool would have been deducted from the debt subject to limit already.

If we ask whether some other obligations or liabilities, not now under a debt limit, should appropriately be placed under one, there is a major difficulty in distinguishing among obligations that might or might not merit inclusion.

The earlier discussion of this matter focussed particularly on participation certificates in pools of Federally owned financial assets. Presumably, the rationale for considering inclusion of the participation certificates under a debt limit would be that an underlying Federal liability remains, whether the Government's holdings of financial assets are financed with U. S. Treasury obligations or with the sale of participation certificates. It is significant to me, however, that the holder of the participation certificate looks first to the pool of private credit instruments, and only on a contingent

basis to the financial resources of the Federal Government. It is otherwise with a holder of Treasury bills, notes, or bonds.

Moreover, the Federal Government's contingent liability in connection with participation certificates of FNMA or the Export-Import Bank is just the same as with:

- Federal Housing Administration insured loans
- Veterans Administration guaranteed housing loans
- CCC certificates of interest
- Farmers Home Administration insured mortgages
- Economic Development Administration guaranteed loans
- Maritime Administration insured loans
- Guaranteed military assistance credits
- Federally insured student loans
- Loans guaranteed by the Public Health Service
- Public housing and urban renewal guaranteed loans
- Loans guaranteed by the Agency for International Development
- Export-Import Bank Guaranteed loans (in addition to Eximbank participation certificates)
- Small Business Administration guaranteed loans

Taken together these contingent obligations would total an estimated $105 billion at the end of Fiscal Yeal 1967 and $116 billion at the end of Fiscal 1968.

In addition, one might add to a list of contingent liabilities of the Federal Government the direct debt of certain Federal agencies such as:

- Federal Home Loan Banks
- Tennessee Valley Authority
- Federal National Mortgage Association (for secondary market operations)
- Federal Land Banks
- Banks for Cooperatives
- Federal Intermediate Credit Banks

These obligations do not carry specific language providing a U. S. Government guarantee, but it is generally understood that the Government stands in back of these issues. These agency obligations would amount to an estimated $21.5 billion at the end of June 1967, and $23.3 billion at the end of June 1968.

Such an all inclusive list, however, would not be workable. The attempt to make it work would require a most unwelcome and

complex network of controls over private credit market activities. I wonder, for example, if we would want to be in the position of having to hold back the Federal Housing Administration's insurance program, the VA mortgage guarantee program, or the CCC price support program, because of running up toward a debt limit. Yet the contingent liability here is the same as in the case of participation certificates.

At first glance, there is an attraction to a limit on contingent debt and direct agency debt, in that it offers a way to focus attention on an important element in our financial picture. Federal credit programs have grown rapidly and their role is not always fully appreciated. But certainly there is a difference between a policy of keeping careful track of a set of diverse programs, and a policy of applying a dollar ceiling that would tend either to be so ample and permissive as to constitute no ceiling at all, or so tight as to risk infringing on essentially private credit market activity.

However, should the Congress still wish to consider a limit on these contingencies, I am strongly of the opinion that it should be separate and apart from the limit on direct Treasury obligations. For this second debt limitation

a workable group could probably be selected from the lists of contingent liabilities and direct agency debt given above. It might include contingent liabilities such as participation certificates, Farmers Home insured paper, public housing and urban renewal -- and other programs where there is effective budgetary program control. It might also include the direct debt of agencies that are either owned at least partially by the Federal Government or that have a statutory call on the Federal Government for financial support. This grouping could include, for example, TVA securities, FNMA secondary market obligations, some of the Farm Credit obligations and Federal Home Loan Bank issues. Treasury and Budget staffs have developed one such list of contingent obligations which we are prepared to submit for the record.

There is still a question about the logic of this arrangement, for it would seem to set another control over what is already controlled, but leave untouched such programs as Federal Housing Administration insurance where the contingent liability is just as great but there is no close program level control.

Thus, I am not convinced that placing contingent liabilities or direct agency debt under a ceiling would serve a useful

purpose, and accordingly I recommend that no change be made in the present coverage of the debt limit. There would be an improvement in the consistency of the existing coverage if the D. C. Stadium Bonds and FHA debentures were taken out of the present debt limit, and some minor Treasury debt items added, but this is not a high priority matter.

TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, May 15, 1967.

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 February 16, 1967, and the other series to be dated May 18, 1967, which were offered on May 10, 1967, 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 August 17, 1967		:	182-day Treasury bills maturing November 16, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.089	3.604%	:	98.082	3.794%
Low	99.080	3.640%	:	98.075	3.808%
Average	99.083	3.628% 1/	:	98.078	3.802% 1/

53% of the amount of 91-day bills bid for at the low price was accepted
92% 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	$ 22,287,000	$ 12,287,000	:	$ 4,054,000	$ 3,050,000
New York	1,559,287,000	881,327,000	:	1,669,171,000	760,873,000
Philadelphia	26,851,000	14,851,000	:	14,073,000	5,230,000
Cleveland	26,778,000	25,538,000	:	31,899,000	14,257,000
Richmond	9,899,000	9,784,000	:	4,048,000	3,448,000
Atlanta	57,216,000	35,453,000	:	29,046,000	9,289,000
Chicago	204,551,000	143,441,000	:	175,000,000	67,350,000
St. Louis	47,939,000	35,889,000	:	35,597,000	23,497,000
Minneapolis	22,579,000	15,686,000	:	12,446,000	4,146,000
Kansas City	34,724,000	31,522,000	:	11,633,000	10,233,000
Dallas	23,658,000	13,458,000	:	16,298,000	6,098,000
San Francisco	106,010,000	81,545,000	:	166,345,000	93,174,000
TOTALS	$2,141,779,000	$1,300,781,000 a/		$2,169,610,000	$1,000,645,000 b/

a/ Includes $260,722,000 noncompetitive tenders accepted at the average price of 99.083
b/ Includes $113,516,000 noncompetitive tenders accepted at the average price of 98.078
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.72% for the 91-day bills, and 3.94% for the 182-day bills.

F-921

FOR USE IN MORNING NEWSPAPERS
OF THURSDAY, MAY 18, 1967

REMARKS BY THE HONORABLE TRUE DAVIS
ASSISTANT SECRETARY OF THE TREASURY
AT THE 22ND ANNUAL FOREIGN FREIGHT FORWARDERS
AND CUSTOMS HOUSE BROKERS NIGHT BANQUET OF THE
FOREIGN COMMERCE CLUB OF NEW YORK
NEW YORK HILTON HOTEL, NEW YORK CITY
WEDNESDAY, MAY 17, 1967, 8:00 P.M., EDT

TRADE POLICY AND PROBLEMS

There is an old Dutch saying that trade should be free -- even in hell. It is unlikely that trade will ever be free there until we make the movement of goods, services, capital, manpower, and technology more free here on earth.

This is precisely what people in countries the world over have been patiently trying to accomplish, especially during the past few years. Trade barriers have gradually fallen. More will fall in the future as we continue trade negotiations with countries, bilaterally and multi-laterally, in private sessions and in public conferences. The course we have been pursuing -- and will continue to pursue regardless of temporary road blocks -- did not arise primarily from the desire of businessmen seeking profit. Rather, it originated from the desire of human beings seeking a better standard of living, a more equitable distribution of the fruits of scientific and technological advance, and for friendship based upon mutual respect for each other's culture and mutual tolerance for each other's problems.

Most of you here tonight are concerned with imports and exports, with custom duties, regulations and requirements, and with the whole intricate process of expediting goods in and out of our country so that the minimum time elapses between their shipment and their ultimate use in all corners of the world. We in the Treasury are concerned both with the details of your operations and with the large portfolio of complicated laws regulating the world flow of commerce, the diverse streams of which are the economic and cultural lifelines of every country and every people. The removal or erection of

trade barriers, the simplifying or complicating of customs procedures, and the speed or delay at which we arrive at solutions to conflicting problems or diverse interpretations, all these affect your daily operations. They also affect relations between buyer and seller in different countries. They may improve <u>or</u> destroy existing attitudes toward our country on the part of foreigners. They may also nurture <u>or</u> weaken your confidence in those of us in government who are concerned with building bridges of communication between peoples and countries over which may pass a free flow of goods to enrich the human body and a free flow of ideas to enrich the human mind and spirit. We in government -- just as you in private business -- are conscious of the necessity of developing between countries unimpeded rivers of commerce: for where these rivers flow, there also flows better understanding between peoples and a more sympathetic attitude toward ideologies different from ours.

Let me briefly review with you the more important things we have done in the trade and tariff area.

One of the most important economic objectives of this Administration, begun under President Kennedy and vigorously continued by President Johnson, has been the reduction of trade barriers so that all nations could reap the benefit of freer trade and all people the benefit of man's creative productivity. The Trade Extension Act of 1962, you will recall, provided the means through which, by negotiations, there would be a general lowering of world trade barriers to accelerate the free flow of goods. Since the passage of this important Act, we have worked patiently in consort with other blocs of countries and bilaterally with individual nations to slash undesirable tariffs. And we shall continue to do so in the future.

We are not -- nor is any other nation -- about to embark on a program to build impenetrable tariff walls around our country. This can only lead to disastrous consequences for us -- or any other nation contemplating wrapping the blanket of protectionism around its borders. Although man is notoriously adept at repeating his past mistakes, he is also ingenious at overcoming obstacles hindering his pursuit of laudable objectives. We know now, to rephrase the poet's lines, that "tariff walls <u>do</u> a prison make." No nation today wants to become its own prisoner.

There is more to trade, as you know, than chemicals, textiles, agriculture, and computers. President Johnson recognized this several years ago when he pledged that we would embark on a new and noble adventure of international education, one object of which was "to increase the free flow of books and ideas, works of art, of science and imagination." We have already taken three major steps forward toward fulfilling this objective with the Florence Agreement, the Beirut Agreement, and the arrangement with foreign countries to exchange works of national art.

You will recall that ten years ago the European Common Market was a dream. It has long been a reality. It has brought European countries closer together -- in cultural as well as economic pursuits. That it became a reality so quickly, overcoming traditional national barriers, age-old prejudices, and selfish interests, indicates the growing desire on the part of people to eliminate barriers that separate them as human beings. The United States vigorously supported the creation of this European Common Market. Now, ten years later, we have pledged ourselves to help create another common market -- this time, a Common Market for Latin America.

II

Last month it was my good fortune to accompany President Johnson to Punta del Este where he met with other Presidents of the Americas. The problem they faced, shadowed by an air of urgency and a feeling that time is running out, was to forge a plan of <u>united</u> action that would accelerate social reform and the pace of economic development. Toward this end, they forged the "Declaration of the Presidents." I would like to summarize this for you briefly, for the degree of our participation is significant.

The Presidents agreed:

1. To create and support a Latin America Common Market, which will facilitate the free movement of goods and services;

2. To expand Latin American trade to other countries of the world;

3. To lay the physical foundations for Latin American economic integration through multi-national projects that will bind the nations of the hemisphere in great transportation, power, and river developments, opening the way for the movement of both people and goods throughout the continent;

4. To modernize living conditions of rural populations and substantially increase food production so as to feed their expanding population;

5. To vigorously promote education for development, expand programs for improving health of Latin Americans, and harness science and technology for the services of all; and

6. To eliminate unnecessary military expenditures.

Creating a Common Market for Latin America will not be an easy task. It will begin in 1970. It will take another fifteen years of patient negotiation before barriers are removed to permit the unimpeded flow of goods, capital, manpower, and technology so essential for the economic progress of Latin America. Traditional nationalistic barriers in the Americas will have to give way to regional hemispheric goals. Just as the European Common Market helped unite people of different nationalities and ideologies, so, too, can the Latin American Common Market. The task in Latin America will be more difficult than in Europe, where countries share a common heritage and have been an integral part of Western culture for almost two thousand years. In Latin America the nationalities are many, the ethnic cultures numerous, the physical problems -- the geography of terrain -- enormous, and the differences of individual countries striking in their size, wealth, and economic development.

Although Latin America was settled by Europeans about the same time as North America, it was not until the 19th century that colonies became free sovereign nations. Up to World War I they were closely oriented to Europe, culturally and economically. It was Europe that furnished Latin America with industrial products, not the United States. Under the influence of Spain and Portugal, Latin American countries were not permitted to deal directly with each other. Such a policy nurtured nationalism, prevented the development of friendly relations between peoples and countries, and precluded cooperative resolution of mutual problems or development of common interests. Since World War I, Latin America has looked to the United States, although strong ties with Europe still exist. Today, as a result of the historic Spanish and Portugese encouragement of nationalism, Latin American countries are much more closely oriented toward the United States and Europe than toward each other.

The chasm between poor and rich in Latin America, moreover, is greater by far than any chasm in Europe. This will have to be closed -- and at a faster pace than heretofore. The impetus will have to come from Latin Americans themselves -- from government leaders and enlightened business and industrial leaders. Creating this Common Market will indeed be difficult, but it will be done for the simple reason that it has to be done. There is no alternative.

To expand Latin American trade to other countries, including our own, will also be difficult. For the entire free world is engaged in competitive foreign trade and commerce. Does such a competition allow for any other philosophy except dog eat dog and the devil take the hindmost? It certainly does! Humanitarianism -- concern for other people's welfare -- has been and is now the guiding principle already enabling men of good will to reduce tariff barriers to the free flow of trade. We know that as we increase our trade to Latin America and as the Americas increase trade among themselves and between us and other highly developed countries, there inevitably will arise problems and conflicting opinions in the complicated area of tariff and trade. Concessions will have to be made by all countries, but particularly by the wealthier ones. We already have committed ourselves to exploring with other industrialized countries the possibilities of temporary preferential tariff advantages not only for Latin America but also for other developing countries in the markets of industrialized nations. The wealthier countries of the world -- more than ever before -- will have to work in unison to help developing countries increase their trade and accelerate their economic growth rate. For time indeed is running out. Procrastination is the thief of more than time in Latin America. It can steal hopes, dreams and aspirations. Should these flee the human spirit, the mind may turn more and more to revolutionary thoughts of violence as a means of accomplishing desirable ends.

The assistance that we in the United States can render will be useful, as President Johnson emphasized, only as it reinforces the determination of Latin Americans and builds on their achievements. I was particularly impressed with a phrase the President used at Punta del Este when he said that "this is not a job for sprinters, but long distance runners."

III

No discussion of trade or tariff, however brief, would be complete without reference to our Customs Service. As I mentioned earlier, trade can quickly halt and attitudes quickly change if goods are not expeditiously moved from their origin to their destination. The role of the Customs Service in the nation's economy cannot be measured by the money it collects, although this is important, or by the effectiveness of its law enforcement, which is most important, but rather by the quality of the service it performs in compliance to the laws it must interpret and to the requirements and needs of the people who make possible the Service's existence. Using this criterion as a measure of value, I believe that our Customs Service, which forms an important part in the mosaic of our country's economy, is sensitively responsive to the nuances of our rapidly expanding traffic in trade and tourists. It is "honest, resourceful, efficient," as President Johnson recently emphasized.

Our Customs Service is presently understaffed. We will need more trained personnel in the future to keep pace with the movement of people and goods in and out of our ports. Congress recognizes this fact, and we anticipate authorization to employ and train more people so we can better assist you to aid and service both manufacturer and customer. At present, we have less than 9,000 full-time employees in 360 field offices both here and abroad. This compares, for instance, with 7,200 in the Customs of Canada, with one-tenth the population, with 32,500 in the Federal Republic of Germany, which does only a fraction of our volume of foreign trade. The annual operating costs for our Customs Service is about $100 million, but it collects and turns over to the general fund of the Treasury 26 times this amount -- more than $2.6 billion. It returns, in other words, one dollar for every 3-½ cents invested, thus making it one of the most profitable enterprises of the Federal Government.

During the time I have been with the Treasury Department, I have carefully observed the Customs Service during its critical period of reorganization and modernization. As most of you know, the Service has been revitalized and modernized in many areas, to the advantage of importers and exporters, the traveling public, and of customs brokers. The reorganization itself, you may recall, was scheduled to take place over a five-year period.

Actually, it was accomplished in one year -- with a minimum dislocation and without dismissal or involuntary transfer of Customs personnel. Under the capable direction and leadership of Commissioner Lester D. Johnson, it has reduced paperwork and eliminated obsolete and unnescessary forms. The processing of merchandise entries has been substantially accelerated, which has resulted in faster delivery of imported cargo and less dockside and airport congestion, with substantial savings in both time and money to businesses.

In our Bureau at Baltimore, automatic data processing has been installed. Eventually all Customs collections and accounting procedures will be automated. Customs entry, examination and liquidation operations have been consolidated and put into effect in San Francisco and other ports with satisfactory results. Yet we still have some problems in New York that have prevented the execution and implementation of the Stover report recommendations. Through the excellent work of Mr. Michael Stramiello, Regional Commissioner of Customs, and his capable staff, we are doing our best to satisfactorily resolve these problems. As you know, the regional area of the Port of New York does 40 percent of Treasury's total customs business. It is precisely because of this heavy volume that the resolution of these problems has been difficult.

Through the recently appointed Advisory Committee on Customs Administration, representatives of the importing community and transportation industry meet with Customs employees and Treasury officials to discuss mutual problems and recommend mutually satisfactory solutions. This Committee has proved to be a valuable clearing house for ideas pertinent to Customs matters. It is my desire to soon appoint local advisory committees dealing with problems of Customs administration at Regional and, in some cases, at District levels. We realize that our primary purpose is to serve the public well by facilitating the movement of passengers and cargoes. We would greatly appreciate any thoughts or suggestions that you or your colleagues might have, now or in the future, that would assist us in fulfilling this responsibility.

IV

To the foreign freight forwarders and customs house brokers who are being honored here this evening, I should like to say this: You are directly involved with our Customs Service and with

the whole spectrum of foreign trade and tariff. What we negotiate in trade conferences or agree upon in bilateral discussions with other countries has a direct bearing upon the volume of your business. I'm certain, however, that your interests transcend this immediate concern. This is why I have briefly discussed with you some of our trade and tariff accomplishments and problems. The bridges we build through sensible, selfless avenues of commerce, permitting the free movement of goods, services, capital and human beings, can have an enduring effect upon the peace and stability of the world.

Individual citizens, such as you, must continue to participate equally as fully as we in government to achieve desirable trade objectives which include the elimination of tariff walls and barriers. Neither can accomplish much alone without the enlightened support of both. Working together, complementing and supplementing each other's efforts, we can help unite people. In doing this we will help to raise the standard of living the world over, help distribute more evenly the benefit of man's creativity, and help destroy those social and economic causes that breed and nurture the seeds of violence, revolution, and war.

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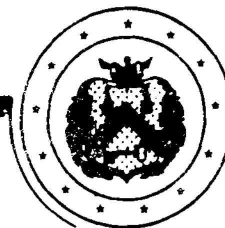
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 16, 1967

FOR IMMEDIATE RELEASE

MEETING OF JOINT COMMISSION ON THE COINAGE

Due to long standing Memorial Day weekend commitments of many Congressional members of the Joint Commission on the Coinage, the Commission's first meeting has been changed to Thursday, May 18, 1967, from Friday, May 26. The meeting will still be held in the Main Treasury Building.

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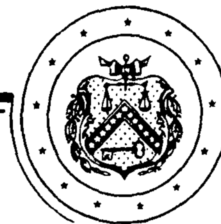
F-923

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 16, 1967

FOR RELEASE TO AM'S OF
WEDNESDAY, MAY 17, 1967

UNITED STATES AND SINGAPORE TO DISCUSS INCOME TAX CONVENTION

Representatives of the United States and Singapore are scheduled to meet in Washington early in June to begin discussions on a proposed income tax treaty between the two countries.

The proposed treaty is intended to avoid double taxation and promote trade and investment between the two countries. It will be concerned with the tax treatment of trading and other business enterprises, investment income, and income from services. No treaty presently exists between the two countries.

The proposed treaty is expected to follow the general pattern of recently negotiated treaties between the United States and developing countries.

Persons interested in the U.S.-Singapore discussions may wish to examine the treaty signed recently by the United States and Brazil, which is now awaiting consideration by the U.S. Senate Foreign Relations Committee. Also of interest, as background on United States treaties with less developed countries, is the statement by Assistant Secretary of the Treasury, Stanley S. Surrey, contained in the August, 1965 hearings on the treaty with Thailand before the Subcommittee on Tax Treaties of the Senate Foreign Relations Committee.

Persons wishing to offer comments or suggestions in connection with the Singapore negotiations are invited to send their views before June 1, 1967 to Assistant Secretary of the Treasury Stanley S. Surrey, United States Treasury Department, Washington, D. C. 20220.

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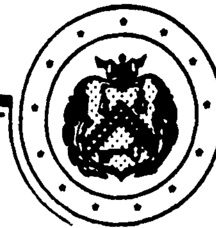
F-924

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 17, 1967

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 May 25, 1967, in the amount of $2,299,870,000, as follows:

91-day bills (to maturity date) to be issued May 25, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated February 23, 1967, and to mature August 24, 1967, originally issued in the amount of $1,000,119,000, the additional and original bills to be freely interchangeable.

183-day bills, for $1,000,000,000, or thereabouts, to be dated May 25, 1967, and to mature November 24, 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, May 22, 1967. 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-925

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 Treasur 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 May 25, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 25, 1967. Cash and exchange tende will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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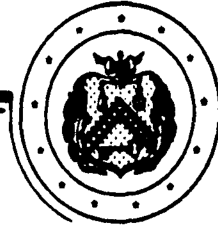
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 17, 1967

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 May 31, 1967, in the amount of $1,401,990,000, as follows:

274-day bills (to maturity date) to be issued May 31, 1967, in the amount of $500,000,000, or thereabouts, representing an additional amount of bills dated February 28,1967, and to mature February 29,1968, originally issued in the amount of $901,029,000, the additional and original bills to be freely interchangeable.

366-day bills, for $900,000,000, or thereabouts, to be dated May 31, 1967, and to mature May 31, 1968.

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, Wednesday, May 24, 1967. 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 366 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 May 31, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 31, 1967. Cash and exchange tender will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

F-926

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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 RESULTS IN THE
FIRST QUARTER OF 1967
MAY 17, 1967 AT 3:30 P.M.
ROOM 4121, MAIN TREASURY

You have before you the balance of payments results for the first quarter of this year, released earlier today by the Commerce Department. Since it is not possible to predict results for an entire year from first quarter results, even after the best adjustment we know how to make for seasonal factors, I will not do so. Instead, I will try to place these first quarter results in perspective.

The principal results of first quarter transactions, seasonally adjusted except in the case of gold flows, are:

-- A deficit of $539 million in the "liquidity" basis, which is $101 million better than a year earlier and $88 million more than one quarter earlier.

-- An "official settlements" deficit of $1,832 million, which is $1,400 million more than a year earlier and $1,803 million more than one quarter earlier.

-- A gold outflow of only $50 million, the smallest since the third quarter of 1964, when there was a net gain of $20 million in our gold holdings.

-- A turnaround in our trade surplus, which had been moving downward since 1964. In the first quarter of this year our trade surplus moved up to $1,029 million, somewhat lower than a year earlier, but nearly half again as large as the surplus of some $700 million in the previous quarter.

In considering these first quarter numbers, the important thing is to look into the background of them, and try to assess their meaning accordingly. This is what I shall try to do now.

First -- why is the "official settlements" figure so high for the first quarter of 1967?

There are two principal reasons:

(1) Sterling, as you know, came under heavy pressure around the middle of last year. The result was that private holders converted some of their sterling balances into dollars, drawing dollars out of the dollar reserves of the U. K. Government. This resulted in reducing our official dollar liabilities and hence improved our payments position on the "official settlements" basis. But, as confidence in sterling returned during late 1966 and the first quarter of this year, such dollars have flowed back into British reserves with a resulting adverse effect on our "official settlements" balance.

Let me point out, however, these flows have a deeper meaning than can be indicated just by the statistics. The reflow of dollars to U. K. reserves did not weaken our basic balance of payments position -- it took nothing new away from us -- and it indicated that sterling was in a stronger position -- a beneficial development for us as well as for the U. K. The dollars flowing back into official U. K. reserves enabled the British to buy back from us sterling which we had previously acquired under swap agreements with them.

(2) Heavy demands for credit in the U. S. last year caused U. S. banks to seek dollar funds abroad through their overseas branches. This indirectly resulted in drawing down foreign official dollar reserves. Further, it inhibited the movement of other dollars into foreign official reserves that would have taken place if there had not been a strong inducement for private holders to deposit dollars with U. S. branch banks overseas. This situation benefitted our "official settlements" balance without affecting our balance on a "liquidity" basis. With the easing of the U. S. credit situation during the final weeks of last year and the first quarter of this year, there was a predictable reflow of some of these dollars to foreign official accounts, with a resulting adverse impact on our "official settlements" balance. This reflow, in the last few weeks of 1966 and the first quarter of this year, amounted to about $930 million.

In view of these large shifts of foreign-held dollars out of and then back into foreign official reserves, an averaging of recent quarterly results on the "official settlements" basis gives a better idea of underlying trends. The average for the past three quarters, ending with the first quarter of this year, was $351 million -- just $18 million more than the average for the corresponding three quarters a year earlier.

Further, in the case of the "liquidity" deficit, the average for the latest three quarters was only $4 million above that for the same three quarters in the 1965-66 period. This indicates we continue to hold our own on this balance of payments front, despite the heavy foreign exchange costs of the Vietnam struggle.

Gold Loss

The small amount of gold outflow in the first quarter -- $50 million -- is encouraging in two respects. First, $30 million of the first quarter loss represented sales to licensed domestic users, leaving only $20 million of net sales to foreigners. Further, the $20 million loss to foreigners was the result of a large number of small purchase and sales transactions.

Trade

A second encouraging development in the first quarter was the change of direction in the movement of our trade surplus. The surplus reached an all-time high of $6.7 billion in 1964, declined to $4.8 billion in 1965, and declined still further to $3.7 billion in 1966. Moreover, the quarterly pattern last year was consistently downward -- from $4.7 billion on an annual rate basis in the first quarter to $3.8 billion in the second, to $3.2 billion in the third, and to $2.9 billion in the fourth quarter.

In the first quarter of this year, the trade surplus improved to an annual rate of $4.1 billion, seasonally adjusted. This is not as high a trade surplus as we had in the first quarter of 1966, but the change toward a higher, instead of lower, surplus is likely to be a meaningful indicator, since it reflects an easing of the internal economic pressures that built up in the last two years due to the demands of Vietnam, superimposed on an economy already running at a high rate. These pressures caused the economy to reach outside for help in the form of extraordinarily large increases in imports and at the same time impaired our ability to export.

First quarter exports were running at an annual rate of $30.9 billion -- 6 percent above the level for 1966 as a whole.

First quarter imports were at an annual rate of $26.8 billion -- 5.1 percent up from the level of imports for the full year 1966. This compared to import increases of 15.3 percent in 1965 and 18.8 percent in 1966. A high January level of imports was followed by successive declines in February and March reflecting the easing pressure of domestic demand and the easier domestic supply situation.

Other Items

Banks continued to reduce their outstanding credits to foreigners during the first quarter, in line with their excellent record of cooperation under the Federal Reserve Voluntary Restraint Program. We have available for you here the latest Federal Reserve release on this aspect of the program.

New foreign security sales in the U. S. of $351 million were above the fourth quarter volume of $201 million (seasonally adjusted) and somewhat above the first quarter, 1966, level when that level is adjusted downward for $150 million of new Canadian issues that had been postponed from late 1965.

Foreign investment in long term U. S. time deposits and certificates of deposit continued at the high fourth quarter level.

Detailed first quarter data on the remaining balance of payments accounts, including military transactions, services, government grants and capital, and other non-liquid capital transactions, including direct investment abroad, are not yet available. However, the total of these items plus "errors and omissions" was $1.8 billion, seasonally adjusted -- practically the same as in the first and fourth quarters of last year.

Our 1967 objective continues to be to make as much further progress toward equilibrium as the costs of Vietnam will permit. The direct foreign exchange costs of the war are expected to be higher in calendar 1967 than in 1966. It has always been difficult to measure the indirect costs, primarily in imports, but these costs should be lower in 1967 than in 1966 if our economy grows at a more normal rate. At this point, it is impossible to foresee what the over-all impact -- direct and indirect -- of Vietnam will be on our payments picture in 1967.

As you know, we have tightened the two voluntary programs administered by the Federal Reserve Board and the Commerce Department. We have asked the Congress to extend the Interest Equalization Tax and to make it a more flexible instrument that can respond to changes in interest rate differentials, here and abroad, and thus permit us to manage our domestic monetary affairs with the greatest possible freedom.

While relying on these measures to meet our short term objectives -- as well as intensified efforts to limit the foreign exchange costs of our Government programs -- a longer term solution requires:

-- a major improvement in our trade performance supported by reasonable cost and price stability;

-- a large increase in our overall surplus on direct investment account;

-- improved receipts from foreigners traveling in the U. S.;

-- a better balanced flow of capital, to and from the United States, as foreign capital markets become more efficient and interest in U. S. portfolio investment intensifies; and

-- continued discipline on the Government account.

For information as to the thrust and character of our longer term program I refer you to my speech of March 17 last, at the Annual Monetary Conference of the American Bankers Association, and a speech on May 2 by Assistant Secretary Knowlton, to the World Affairs Council, in Boston.

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U. S. Balance-of-Payments Position, by Quarters
(Millions of dollars, seasonally adjusted)

Year	Qtr.	"Liquidity" Balance	"Official Settlements" Balance
1965	I	-697	-618
	II	226	239
	III	-534	232
	IV	-332	-1,158
1966	I	-640	-432
	II	-112	-165
	III	-164	870
	IV	-451	-29
1967	I	-539	-1,832

May 15, 1967

STATEMENT BY THE HONORABLE TRUE DAVIS
ASSISTANT SECRETARY OF THE TREASURY
AND UNITED STATES EXECUTIVE DIRECTOR
OF THE INTER-AMERICAN DEVELOPMENT BANK
BEFORE THE FOREIGN RELATIONS COMMITTEE
UNITED STATES SENATE
MAY 18, 1967, 10 A.M.

Mr. Chairman and Members of the Committee:

I am pleased to accompany Secretary Fowler and Assistant Secretary Gordon on their appearance in support of the proposal for an increase in the resources of the Fund for Special Operations of the Inter-American Development Bank. Secretary Fowler has presented you the reasons for the proposed increase. Assistant Secretary Gordon has given you the political and economic context in which the Inter-American Development Bank operates. As United States Executive Director of the Bank I would like to add some comments on the organization, management, and operations of the Bank. I might add that I make these comments against the background of one having come into governmental service after a long career in domestic and international business.

Under the Bank's Charter, the Board of Executive Directors is "responsible for the conduct of the operations of the Bank." In the fulfillment of this duty the Board takes an active, direct and continuous interest in the affairs of the Bank. As of April 15, the Board has authorized from all available resources 407 loans, totaling $2.037 billion. These loans are described in greater detail in the Report of the Executive Directors recommending these increases in the resources of the Bank. This report is available as an annex to the present report by the National

Advisory Council. Suffice it to say that the loans cover the broadest spectrum of activities -- agriculture, education, health, industry and mining, water and sewerage, housing, transportation and electric power. They cover governmental and private loans, technical assistance and pre-investment financing, multi-national loans and regional development. In short, the Bank is the single most comprehensive lending institution which represents to our Latin American friends _their_ Bank for the Alliance for Progress. This multitude of activities and responsibilities places a heavy burden on the Bank's organization and management and, of course, its Board of Executive Directors.

The Board is expected to be familiar with the details of all loan transactions in order to determine whether or not they comply with the letter and spirit of the Bank's Charter. This involves a careful examination of the economic, financial and technical analyses of the project as contained in the loan document. If the loan is not fully satisfactory, changes are proposed and referred back to the staff to negotiate with the borrower. Under provision of the Bank's Charter, loans from the Fund for Special Operations can be granted only if the United States Director votes positively for the proposal. In addition to passing on loan applications the Board makes determinations on matters of general policy and organization and is consulted on basic management problems by the management of the Bank.

Under the Agreement, the United States appoints its Executive Director. The remaining six Executive Directors are elected by the

Latin American members without participation by the United States. As required by the Agreement, the Executive Directors are persons of recognized competence.

When the procedures for the election of the Latin American Directors were originally drafted in 1959, it was expected that Cuba would become a member of the Bank. When that country remained outside the Bank, the balanced Latin American representation which the election procedures were designed to assure was disturbed. The proposed Resolution on election to the Board of Directors would rectify this situation to the satisfaction of the Latin American members and would in no way affect United States representation or voting power in the Bank. Since the proposed Resolution involves an amendment to part of the Bank's Articles of Agreement, Congressional authorization is required in order that the United States Governor may vote for the Resolution.

Since there are many development programs, national and international, operating in Latin America, there is an unquestionable need to look at coordination efforts. Within the United States government, the National Advisory Council is the forum where every loan is reviewed and we achieve effective coordination of this Bank's efforts with other United States and international financing agencies. With regard to the Bank, I am in wholehearted agreement with the statements contained in a recent report of the House Banking and Currency Committee that coordination at the headquarters level and in the field is an absolute necessity to avoid duplication of effort and insure maximum use of scarce capital resources. I believe there have been notable improvements in this area from the early

days of the establishment of the Bank, both in relating overall country programs and performance to the Bank's activities and in approving and carrying out individual projects.

We now have the Inter-American Committee for the Alliance for Progress, CIAP, which provides a multilateral framework to establish standards of performance, to spur self-help measures, and to evaluate institutional programs, including fiscal and monetary reforms. The CIAP also provides the forum where the AID, the IBRD, the Export-Import Bank, and the IMF and the IDB are able to meet together and exchange views and information and concert their efforts. The office of the Program Advisor represents the Bank in these matters. This office has in recent years moved into developing multi-year programs as part of a total country development strategy and has related these programs to the work of other external financing agencies, particularly to the United States bilateral efforts. Additionally, the Bank has been establishing and strengthening its field offices so that the dialogue goes on in the field as well as in Washington. There have been gaps in the past and there continues to be room for improvement. However, the AID Mission Directors in their annual meeting here in Washington last month reported that the last year has shown major improvements.

To assure that its organization and procedures are kept current with the increasing workload and modern techniques, the Bank has contracted with a leading United States management consulting firm. The Bank has established within its Operations Department a division of loan administration. This unit is focusing attention on the implementing actions needed to bring the loan into final fruition.

Also, a controller of operations with a small staff has been established to spot-check all operations and delve into particular problem matters. These organization units are additional to the usual internal auditor and audits conducted by Price Waterhouse and Company.

The Bank has continuously been improving its disbursement controls and procedures. In order to hold out hope to the peoples of the Hemisphere that actions were underway to deal with their pressing economic and social problems, in the early stage of the Bank there were cases where perhaps loans were authorized too rapidly. As greater understanding of the development process and of working with external financial agencies has occurred, it has been possible to complete many conditions prior to the authorization of the loan, rather than authorizing the loan and the funds remaining unused until those conditions were fulfilled. Authorization of loans prior to contract signing enables the borrower to raise its contribution to the project, to carry out the final stage of the complete engineering plans, or to take other preliminary but essential action that it would otherwise be difficult and costly to undertake unless it had the assurance that financing would be available.

The Bank has established mechanisms which provide that disbursements will be made only as expenditures are incurred for specific goods and services and the conditions upon which the loan is made has been met. It is, therefore, possible to follow each item financed by the Bank from the determination of specifications and the placement of an order to the delivery of an item and its actual use in the project. As a general

rule, the Bank engages the service of project engineers, consulting firms, and other specialists required for proper inspection and supervision of each operation with the borrower bearing these special costs.

The Bank continues to accelerate its disbursements within the bounds of sound and careful management. At the end of 1965, 38 percent of the Bank's portfolio was disbursed; at the end of 1966 this was increased to 42 percent. The nature of many of the Bank projects in less developed countries requires that the period of disbursement be much longer than in the United States. There are also cases where the halting or slowdown of disbursements is necessary to accomplish the desired reforms, particularly in the pioneering efforts of loans for agriculture and education. In addition, the Board conducts a detailed review semiannually of the slow-moving and problem loans in order to take the necessary action, including cancellations. The Board and the management agree that funds cannot be earmarked and unspent with the needs of the Hemisphere so great and the resources limited.

One important test of the ability of an organization is the calibre of its personnel. In general, the Bank has reason to be proud of the dedicated North and Latin Americans on its payroll. The Bank has at its top levels leading specialists in the agricultural, education, legal, economic, and engineering fields. Here again we cannot be satisfied and need to continue to improve the calibre of all personnel and representation of the United States talent on the staff of the Bank. As Secretary Fowler said at the recent Board of Governors' meeting, "I believe each of our

governments equally has the responsibility of assuring that the Bank has at its disposal - even if only for a relatively short time - the intellectual and technical best that the Hemisphere can produce."

I cannot close without calling your attention to the real accomplishments financed by the Fund for Special Operations and the Social Progress Trust Fund, listed in the Bank's report, Socio-Economic Progress in Latin America, provided to the members of the Committee. There are listed the success stories in houses built, roads constructed, jobs created, savings and loan institutions established, school rooms being utilized, and agricultural credits provided.

To summarize, the Inter-American Development Bank -- the Bank of the Alliance, the Bank of Integration -- is a truly multilateral institution, where the United States has an important role to play. As a multilateral institution it can do many things which are difficult to achieve bilaterally and the United States will continue to obtain many benefits from this arrangement. We are certain that the necessary coordinating arrangements and policies and control mechanisms are equal to the task before us, and that the development process is so dynamic that the necessary changes will be effected on the basis of experience and needs of the Hemisphere.

STATEMENT OF THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE
ON FOREIGN RELATIONS
ON INCREASING THE RESOURCES
OF THE FUND FOR SPECIAL OPERATIONS OF THE
INTER-AMERICAN DEVELOPMENT BANK
MAY 18, 1967 - 10 A.M.

Mr. Chairman and Members of the Committee:

It is a pleasure to appear before you today, representing Secretary Fowler, in support of a proposal to increase the resources of the Fund for Special Operations -- the FSO -- of the Inter-American Development Bank.

The proposed legislation on this matter was transmitted to the Congress on April 28. There has also been submitted to the President and to the Congress a Special Report of the National Advisory Council on International Monetary and Financial Policies, which describes the background and the details of the proposal, and recommends its enactment.

The Inter-American Development Bank was established in 1959 as a regional hemispheric agency of the 20 nations -- the United States and 19 Latin American countries -- members of the Organization of American States. In its seven years of existence, the Bank has shown itself to be a valuable instrument of multilateral inter-American cooperation. The Bank has made an outstanding contribution to the development of Latin America, including assistance in the critical area of social development. By the end of 1966, the Bank had made 393 loans in the amount of almost $2 billion to finance projects whose estimated total cost exceeds $5 billion.

Following the pattern already set by the World Bank and the International Development Association -- IDA -- the Inter-American Bank was established with two separate lending "windows." The "Ordinary Capital" window provided for loans on conventional banking terms -- in much the same manner as the operations of the World Bank. The Fund for Special Operations was designed to make loans on the concessional terms required at least in part by the developing countries. As in the case with IDA and in our own bilateral AID programs, there are no private sources of funds on the soft terms required -- the funds required to support FSO lending activities can therefore be obtained only from member contributions.

Until 1964 the United States also participated in

concessional lending by the Inter-American Development Bank through another facility -- the Social Progress Trust Fund. The SPTF is a United States trust fund administered by the Bank, to which the United States contributed a total of $525 million. In 1965, however, it was decided not to make any further contributions to the SPTF, to assign its functions to the FSO, and to increase the United States contribution to the FSO as the sole remaining concessional lending operation within the IDB. In order to provide for this expanded level of FSO activities, the Congress authorized a U. S. contribution of $750 million in support of operations through calendar year 1967.

* * *

It is now necessary to consider a further replenishment of the resources of the FSO. The Governors of the Bank at their meeting in Mexico City in 1966 instructed the Executive Directors to study the position of the Bank's resources and possible needs subsequent to 1967, and to prepare a report and recommendations for consideration at the 1967 Governors meeting. You will find in the Special Report of the National Advisory Council, as an Annex, the Report which the Executive Directors submitted to the Governors. Secretary Fowler joined the other Governors at their meeting here in Washington last month in approving the Directors' Report. We also adopted a Resolution recommending that all

the Bank's members take the necessary steps, under their constitutional processes, to increase the resources of the FSO, as recommended by the Executive Directors, beginning at the end of this calendar year.

The development of the Inter-American Development Bank in its brief existence has been profoundly affected by two great milestone events in inter-American cooperation. The first of these was the Act of Bogota of 1960. This brought us to recognize the key role of social development in economic improvement. In 1961, the Charter of Punta del Este established the Alliance for Progress as the guide for all our efforts toward the betterment of the Hemisphere and the lives of our peoples.

The replenishment of the Fund for Special Operations which we are now asking you to approve would be the first concrete implementation of a third landmark event -- the "Declaration of the Presidents of America" of April 14th -- which gave new vigor and new directions to the Alliance of the Americas.

The proposal which is now before you has taken into account fully the decisions of the Presidents at Punta del Este.

The Latin American members of the Bank have again resolved to increase and strengthen their own self-help efforts. They propose to double their contribution to the Fund for Special Operations. For the three years

1965-1967, the contribution of the Latin American members of the Bank in their own currencies was the equivalent of $150 million; for the next three years, they propose to make contributions the equivalent of $300 million.

Moreover, the Latin American members of the Bank now propose to take a significant step toward mutual self-help. The four largest Latin American members -- Argentina, Brazil, Mexico, and Venezuela -- propose to permit a substantial portion of their contributions to be used by the Bank to make loans to the smaller, relatively less industrialized, countries which have relatively weaker financial and resource capabilities.

As is made clear in the Report of the Executive Directors, the future activity of the expanded FSO -- and

all the activities of the Development Bank -- will be oriented especially toward those problem areas singled out for special attention by the Presidents. The urgent problem of rural modernization and improved agricultural production -- especially of food -- will be given the highest priority, as it deserves. In addition to redoubled efforts in agriculture, the Bank plans to broaden its activities in education and health in the directions laid down by the Presidents. And the Bank now proposes to move forward even more vigorously in a new direction agreed upon by the American Presidents -- the multinational infrastructure required for the development of Latin America.

The Bank has already established a "Pre-investment Fund" within the FSO to carry out the urgently needed feasibility studies and other necessary preparations for the execution of multinational projects. In the future the Bank proposes to allocate up to $100 million annually of both Ordinary Capital and FSO resources to finance such projects. Multinational project efforts will be needed to improve transportation and communications services binding the Continent together, and to begin the exploitation of the vast physical resources possessed in common -- such as water and power. Such projects are vital if the Common Market goal which the Latin American Presidents have set for themselves is to become a reality.

In order to meet this new responsibility to move forward with multinational projects, as well as to provide the resources necessary for progress in agriculture and education, it is essential not only to continue our support of the FSO, but to increase the level of our contributions. The proposal before you thus seeks your authorization of a $900 million U.S. contribution to the FSO over a three-year period. This represents an increase of $50 million in the annual level of our contributions to the FSO over the $250 million annual level of our contributions in the past. This U.S. contribution would stand in a ratio of 3 to 1 to the doubled contributions of the Latin American members, in contrast to the ratio of 5 to 1 which applied in the last increase of FSO resources agreed in 1965 -- and a ratio of 11 to 1 in the soft-loan funds during the initial years of the Bank's existence.

Mr. Chairman, I am aware that there will be some concern among the members of this Committee -- as I myself have been concerned -- that the operations of this Bank, and of the other multilateral lending agencies, are conducted in a manner consistent with our balance of payments policy. From the beginning, loans from the SPTF -- which was the major predecessor to the FSO as now established -- were tied to U.S. procurement. In 1965, after we ceased contributions to the SPTF, loans from the U.S. contribution to the FSO were made subject to the same procurement regulations applied in the SPTF. Such funds must be spent in the United States, except in cases where the Bank may approve procurement in a Latin American member country when this is considered advantageous to the borrower.

Dollar loans may also be made to finance local project costs in the country of the borrower, but the dollars obtained by Latin American countries in this way must be spent in the United States under special letter of credit procedures similar to those of our own bilateral aid program.

The much larger Latin American contribution to the FSO now being proposed will help to reduce the need to use dollars to finance local project costs. The Bank has also decided to limit the use of dollars for local costs -- except for agriculture and education -- to the levels achieved on the average in 1966. The special letter of credit technique will also be kept under review to improve its effectiveness. Taking account of these additional steps designed to assure that our assistance does not merely substitute for U.S. commercial exports which would have taken place anyway,

and on the basis of our experience in the Bank to date, we estimate that about 90 percent of FSO funds disbursed in the future will return to the U.S.

The Bank has shown that it understands fully the need to safeguard the U.S. balance of payments, and that it is prepared to cooperate with us. The recent, unanimous Report of the Bank's Directors on the proposed increase in resources included a clear statement of this attitude, which I should like to quote for you:

"Many activities of the Fund require a substantial amount of local currency expenditure. However, in relation to the financing of local costs with dollars, recognition must be given to the problem of the balance of payments of the United States, and the

Bank will attempt to hold such financing to an appropriate minimum. The Bank is also striving to improve the present procedures whereby such local cost financing is carried out with the least effect on the United States balance of payments. In the light of these problems, which should be regarded as basically transitory in nature, the Bank and its members fully appreciate the difficulties inherent in United States responsibilities in the free world. Accordingly, the Bank proposes to cooperate in the greatest possible degree with the United States in meeting these difficulties by suitable measures, which obviously would be subject to review as conditions changed."

At last month's meeting of the Bank's Governors, similar attitudes were expressed in several of the public speeches and in a number of private conversations -- attitudes of understanding regarding the U.S. balance of payments, of realization that our problem in this respect is also one of vital interest to the Bank and individual countries, and of willingness to cooperate with the U.S. in finding ways to meet the problem. It is clearly understood that the U.S. can afford to give assistance, bilaterally and through the Bank, in the form of real goods and services -- and not in the form of financial transfers which might be used to increase or maintain purchases from other industrial countries or for other purposes inconsistent with our balance of payments policy.

As further evidence of this cooperative understanding, the Governors last month also considered some aspects of the use of the Ordinary Capital resources of the Bank as they may affect the U.S. balance of payments. There has been increasing concern in the Bank that unrestricted free world procurement permitted with Ordinary Capital funds has benefitted a number of the industrial capital-exporting nations out of proportion to the contributions of these countries to the Ordinary Capital in the form of long-term untied loans or bond issues in their markets. The Governors instructed the Directors of the Bank to study the facts in this situation carefully, explore alternative courses of action, and adopt or propose corrective measures for implementation no later than January 1, 1968. As a report of the Directors on this matter indicates clearly, it may be

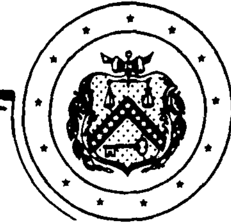
necessary to establish a link between the benefits which non-member countries derive from the Bank and the resources they provide, and limit procurement to those countries making an adequate contribution to the resources of the Bank.

* * *

Mr. Chairman, if the Inter-American Development Bank is to continue to play a key role in the great cooperative venture launched in this hemisphere to better the lives of our peoples, if the Bank is to take on the new challenge and responsibilities laid down by the Presidents last month at Punta del Este, it is essential that it have resources equal to the tasks it faces. That is the reason for the request we are making to replenish its Fund for Special Operations.

I urge that you act favorably on this legislation at an early date.

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 18, 1967

FOR RELEASE AT 3:30 P.M.
THURSDAY, MAY 18, 1967

Effective immediately, the Treasury Department is discontinuing sales of silver to any buyers other than legitimate domestic concerns which use silver in their businesses. The Department is also immediately invoking its legal authority to prohibit the melting, treatment and export of silver coins. The rights of holders of Silver Certificates to exchange them for silver will not be affected.

These actions have become necessary because of a rapid increase in the amounts of purchases of silver held by the Treasury. These purchases have been rising at an unprecedented rate during the past week and, if unchecked, could lead to exhaustion of the silver supplies which the Treasury is authorized to sell. This, in turn could result in excessive hoarding of silver coins needed in our national economy at present, as well as in disorderly, speculative dealings in silver affecting the United States economy.

The price of silver purchased from the Treasury by domestic concerns will remain at $1.29 an ounce, and these concerns will be allowed to purchase it under terms of end-use certificates attesting that it will be used for normal business operations. Pending orders will be filled only upon completion of an end-use certificate.

Under the Coinage Act of 1965, the Treasury has been holding the price of its free silver at $1.29 an ounce. The Treasury has sold silver at that price to all purchasers, whether for foreign or domestic use. This has kept the world price of silver down to the same level, forestalling hoarding of U. S. silver coins. Meanwhile, the Treasury has expedited production at the mints of the new cupro-nickel clad dimes and quarters to meet the country's needs for coins. Progress in this production has been satisfactory, and by the end of the year, if not earlier, there should be enough of these new coins to meet all United States needs. The Treasury has in inventory large stocks of the new coins available for issuance as needed.

F-928

To help assure continued orderly transition to the new U. S. coinage system, the Treasury has found it necessary, in the face of the current rising demand upon its supply of free silver, to institute the actions it is annnouncing today.

The attached Fact Sheet gives further information on the developments which have brought about these actions and provides material in statistical form.

oOo

May 18, 1967

FACT SHEET

BACKGROUND ON THE SILVER SITUATION

World demand for silver exceeds known world supplies.

In the United States, with the authority vested in the Treasury by the Coinage Act of 1965, widespread hoarding of silver coins has been prevented, in the main, by selling silver out of Treasury stocks to all purchasers -- foreign and domestic -- at $1.29 an ounce.

Holding the price at this level has been necessary to keep U. S. silver coins in circulation until there are enough of the new cupro-nickel clad coins in everyday use and in reserve to meet the country's economic needs and to prevent the silver coins from exceeding their face value.

During Fiscal Year 1967, the Treasury expects to produce 4 billion of the clad dimes, 2.7 billion of the clad quarters, and 208 million Kennedy half dollars. In Fiscal Year 1968, production figures are expected to be 2 billion dimes, 1 billion quarters, and 200 million half dollars.

The only silver the Treasury is presently authorized to sell is "free silver" -- which does not stand behind the $553 million silver certificates outstanding. Presently, if all pending orders on hand were filled, there would be 54.5 million ounces of free silver remaining in Treasury stocks.

In early May, the Treasury,before the House and Senate Banking and Currency Committee,requested legislation to permit the writing off of silver certificates determined to be lost or destroyed and end the exchange of those certificates for silver a year after the legislation is enacted. Treasury indicated it would write off $150 million of these immediately after enactment.

Congressional enactment of this silver legislation would, therefore, add 116 million ounces to the "free" silver stocks. This amount, if the rate of demand by purchasers had not risen as sharply as it has since then, probably would have been sufficient to hold the price down, without further action, until enough of the newer clad coins were in circulation or in inventory.

However, since May 1, as is shown in the following statistical material, purchases and orders for silver have been rising. These purchases have been principally by brokers, mostly for export, with the heaviest volume being in the last four working days.

Even if the Congress were immediately to enact the legislation currently before it, heavy purchase demands would be expected to continue in the absence of the actions taken today.

* * * *

The following information, in paragraph and tabular form, may be of use to the press in covering this development. At the end of this Fact Sheet there is attached a copy of the application and end-use certificate which U. S. concerns will use in making silver purchases. This certificate and the formal regulations pertinent to the Treasury decision will be published promptly in the Federal Register.

<u>Silver Sales and Balances May 1 Through May 17, 1967</u>

	Fine Troy Ounces (in millions)
Opening Balance (Free Silver) per Treasury Daily Statement April 28, 1967	87.8
Add: Retirement of Silver Certificates	2.0
Total	89.8
Deduct:	
Sales, Redemption and Coinage	20.3
Amounts Required for Pending Transactions (orders called in by the FRB)	15.0
Estimated Balance of Free Silver as of May 17	54.5

New Orders for Silver
Received by Federal Reserve Banks

(in thousands of ounces)

May 1	200
2	610
3	647
4	4
5	1,942
8	1,969
9	3,411
10	2,723
11	3,598
12	5,767
15	504
16	4,064
17	5,088

Export-Import Figures

Exports of silver from the United States during the 5-year period 1962-66:

Calendar year:		(Fine troy ounces in millions)
1962		13.1
1963		31.5
1964		110.4
1965		45.7
1966		89.1
	Total	288.8

Imports of silver into the United States during the 5-year period 1962-66 (excluding lend-lease returns):

Calendar year:		(Fine troy ounces in millions)
1962		76.4
1963		64.0
1964		54.7
1965		57.9
1966		66.8
	Total	318.8

Foreign Purchases

Foreign countries in which private firms are known to have obtained silver from the Treasury and the corresponding amounts for the years since 1963 are as follows:

Canada		1,001,527.12
Taiwan		20.11
England		61,456,532.62
Germany		4,079,658.25
Peru		25,084.44
Switzerland		29,790,524.40
	Total	96,353,346.94

Silver Sales Totals

Treasury silver made available to the market through redemption of silver certificates or sales of free silver, Jan. 1, 1963, through March 31, 1967, inclusive:

Year:		Fine troy ounces
1963		18,973,066.40
1964		141,402,624.49
1965		77,419,531.89
1966		140,577,965.98
March 31, 1967		43,341,098.35
	Total	421,714,287.11

Fineness of Silver Available

Domestic users of silver who submit properly executed end-use certificates may acquire silver .999 fine at the United States Assay Office in San Francisco or silver .996, .997, and .998 fine at the United States Bullion Depository at West Point, New York.

Penalties

Section 105 of the Coinage Act of 1965 provides:

> "(a) Whenever in the judgment of the Secretary such action is necessary to protect the coinage of the United States, he is authorized under such rules and regulations as he may prescribe to prohibit, curtail, or regulate the exportation, melting, or treating of any coin of the United States.
>
> "(b) Whoever knowingly violates any order, rule, regulation, or license issued pursuant to subsection (a) of this section shall be fined not more than $10,000, or imprisoned not more than five years, or both."

Also, 18 U.S.C. 1001 provides:

> "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact, or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than five years, or both."

End-Use Certificate

A copy of this form is attached to this Fact Sheet.

Attachment

UNITED STATES OF AMERICA
TREASURY DEPARTMENT

Office of the Director of Domestic Gold and Silver Operations
Washington, D. C. 20220

APPLICATION AND END-USE CERTIFICATE FOR SILVER BULLION TO BE USED IN DOMESTIC MANUFACTURING OPERATIONS

1. Name and address of purchaser:

2. Approximate amount of silver, in fine troy ounces, which is covered by this certificate:

The undersigned purchaser or authorized representative of the purchaser, hereby makes application for the purchase of silver, and for the purpose of inducing the Treasury Department to sell silver pursuant to the Act of July 23, 1965 (Pub. L. 89-81), at a price of ______ per fine troy ounce, in the amount set forth in item 2, the sale of which is a matter within the jurisdiction of the Treasury Department, hereby certifies:

3. That this silver is needed by the purchaser for the customary and ordinary conduct of his business.

4. That this amount of silver, together with all other silver held by the purchaser which has not entered into the process of manufacture, does not exceed the amount of silver used in any two consecutive calendar months during the year preceding the date hereof, in the customary and ordinary conduct of the purchaser's business. (Purchaser agrees that his books of account may be reviewed and audited by the Government.)

5. That the business of the purchaser in the conduct of which the silver will be processed or otherwise fabricated is:

6. That this silver bullion will be used for domestic manufacturing operations, that none of this silver will be resold or exported by the purchaser in the form in which it is acquired, and that none of this silver will be substituted for silver in the same form sold or exported by the purchaser in that form after May 18, 1967.

7. That the person whose signature appears below is duly empowered by the purchaser to execute this certificate on behalf of the purchaser.

If the purchaser is an individual this certificate must be signed by the individual himself and not an employee; if a partnership, by one of the partners; and if a corporation, by the President, Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer of such corporation.

Sign here in ink

(Signature of person authorized to execute this certificate)

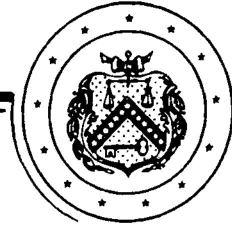
(Official capacity of person signing) (See note on the left)

(Date of Execution)

NOTE: This end-use certificate is not required when redeeming silver certificates for silver.

United States Code, Title 18, Section 1001, makes it a criminal offense to make a willfully false statement or representation to any department or agency of the United States as to any matter within its jurisdiction.

TREASURY DEPARTMENT



WASHINGTON, D.C.

May 19, 1967

FOR A.M. RELEASE
MONDAY, MAY 22, 1967

SECRETARY FOWLER ANNOUNCES JOINT
COMMISSION ON THE COINAGE STAFF ASSIGNMENTS

Secretary of the Treasury Henry H. Fowler, Chairman of the Joint Commission on the Coinage, has designated Assistant Secretary of the Treasury Robert A. Wallace as Policy Coordinator for the Commission and Kenneth M. Failor as its Executive Director.

Mr. Wallace will advise the Commission on all policy aspects of its work and will supervise production of studies made for its use. The new assignment is in addition to his other duties at Treasury.

Mr. Failor, formerly Chief of the Coin Management Division of the Mint, will serve full time as Executive Director -- the Commission's top staff position. He will handle all administrative duties for the Commission and assist Mr. Wallace in coordinating Treasury preparation of background data. He is a 30 year career employee of the Treasury Department.

Mrs. Amelia Juggins, an employee in the Office of the Secretary of the Treasury, has been selected as Clerk. She will be in charge of the clerical activities of the Commission and will assist Mr. Failor on administrative matters.

The Commission will also have the assistance of other Treasury personnel as it is needed.

The Joint Commission on the Coinage was created by the Coinage Act of 1965 to advise the President, the Secretary of the Treasury and the Congress on implementation of the coinage program; needs of the economy for coins; standards for coins; technological developments and other considerations relevant to maintaining an adequate coinage system, minting of silver dollars and official maintenance of the price of silver.

The Commission has 24 members: twelve from the Congress; four from the Executive Branch and eight public members.

The Commission's next meeting is scheduled for July 14.

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TREASURY DEPARTMENT

WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, May 22, 1967.

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 February 23, 1967, and the other series to be dated May 25, 1967, which were offered on May 17, 1967, 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 183-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	91-day Treasury bills maturing August 24, 1967		183-day Treasury bills maturing November 24, 1967	
	Price	Approx. Equiv. Annual Rate	Price	Approx. Equiv. Annual Rate
High	99.126	3.458%	98.138	3.663%
Low	99.110	3.521%	98.108	3.722%
Average	99.117	3.493% 1/	98.123	3.692% 1/

30% of the amount of 91-day bills bid for at the low price was accepted
18% of the amount of 183-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	20,628,000	9,928,000	$ 12,682,000	$ 2,682,000
New York	1,537,315,000	869,415,000	1,269,869,000	699,869,000
Philadelphia	25,056,000	13,056,000	13,376,000	5,376,000
Cleveland	27,953,000	27,953,000	18,626,000	18,626,000
Richmond	8,724,000	8,724,000	3,240,000	3,240,000
Atlanta	41,828,000	29,728,000	24,919,000	16,919,000
Chicago	193,088,000	142,418,000	151,149,000	86,149,000
St. Louis	44,634,000	40,634,000	19,807,000	19,307,000
Minneapolis	28,129,000	25,049,000	18,426,000	18,426,000
Kansas City	24,613,000	24,613,000	7,127,000	7,127,000
Dallas	22,597,000	17,897,000	16,230,000	13,230,000
San Francisco	106,111,000	90,611,000	109,165,000	109,165,000
TOTALS	$2,080,676,000	$1,300,026,000 a/	$1,664,616,000	$1,000,116,000 b/

a/ Includes $230,171,000 noncompetitive tenders accepted at the average price of 99.117
b/ Includes $90,986,000 noncompetitive tenders accepted at the average price of 98.123
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.58% for the 91-day bills, and 3.83% for the 183-day bills.

F-930

TREASURY DEPARTMENT
Washington

FOR RELEASE ON DELIVERY
(EXPECTED AT 4:00 P.M. TUESDAY
May 23, 1967)

REMARKS BY THE HONORABLE JOSEPH W. BARR
UNDER SECRETARY OF THE TREASURY
AT A PLANS FOR PROGRESS MEETING
U.S. STATE DEPARTMENT (INTERNATIONAL CONFERENCE ROOM)
MAY 23, 1967, 4:00 P.M. EDT
WASHINGTON, D. C.

A GOAL FOR BANKING: LEADERSHIP IN ENDING JOB DISCRIMINATION

I am glad to be here with you this afternoon. This is a welcome occasion to talk before such a distinguished group of bankers about a very special goal that I hope will be achieved soon.

This goal has nothing to do with fiscal policy or the balance of payments. Instead, it involves people -- people in your banking industry -- at all levels and in all parts of the nation.

The goal is simply this: To have the banking industry join the leaders in this nation's business community in eliminating all bias and discrimination in employment practices.

Your introductory meeting here this afternoon with Plans for Progress could mark an important forward step towards this goal. I urge you to take it by joining this organization, which

has developed an excellent voluntary program of aggressively promoting and implementing equal employment opportunity in the business community.

THE PROBLEM AND CHALLENGE

I will say at the outset that there is a real job to be done here. Biased and discriminating employment practices in banking and industry are not nearly as bad and widespread as they were in the past. But -- much to my regret -- they still exist.

In the banking and finance industry, it appears to me that there has been less success in combating discrimination than in many other areas of our national life.

This is not entirely the fault of the financial community. As I will indicate later in my remarks, part of the difficulty lies in the fact that banking and finance have not proved extremely attractive to qualified Negro applicants. I am fully aware of the staggering difficulties of recruiting Negroes. I am also fully aware of the fact that "reverse discrimination" -- hiring people because of the color of their skin -- can lead us all into difficult and perhaps insoluble problems.

However, granting all these difficulties, I would insist that in banking, finance and in this field of Government, we still have a very long way to go.

But progress is being made. First, there is a growing awareness among more and more bankers to the problem of discrimination. Second, there is greater effort by an increasing number of bankers, like yourselves, to try and solve this problem.

I strongly believe, however, that more can and should be done.

I hope to see you, as leaders in the banking industry and in your communities, take on even greater responsibilities in bringing an end to discrimination once and for all. I intend to do everything I can from Treasury to help you and the banking industry to assume a leadership role in this effort.

It is with this view in mind that we at Treasury are pressing ahead with our new equal employment opportunity program for banks. Let me review the program for you.

TREASURY'S GUIDELINES

As most of you know, the Department of Justice ruled that banks holding Federal deposits are to be considered Government contractors. Therefore, as such, they must conform with

Federal regulations prohibiting discrimination against employees or job applicants on the basis of race, color, creed or national origin.

Last fall the Treasury issued guidelines for the banking industry's compliance with the Justice Department's ruling. Covered are some 12,000 of the nation's 14,000 banks holding Federal funds. These are mainly incoming tax revenues that the Treasury deposits with Government-insured banks.

At the penalty of losing these deposits, which averaged about $4 to $5 billion recently, banks under our guidelines are required to:

--Establish positive equal employment policies and programs.

--Include in all advertising for employees a statement that all qualified applicants will receive consideration without regard to race, creed, color or national origin.

--Post conspicuously signs saying: "Discrimination is Prohibited."

In addition, banks holding Federal deposits that have 50 or more employees are required to make periodic reports to the Treasury on equal employment practices and personnel statistics relating to our program. About 2,000 banks are involved here.

The first reports were received at the end of last month. We are hopeful of completing an analysis of their contents soon.

Our guidelines are simple and straightforward. But, I want to discuss for a moment what is meant by positive equal employment policies and programs. I think there may be honest differences of opinion over this.

The key here is affirmative action. This means that bank management must actively seek to establish a positive guide in hiring, promoting, training and other personnel activities. It also means that equality of opportunity and improving the job status of minority groups should be presented as significant management goals.

I want to stress that these guidelines do not mean that banks must hire unqualified people or replace existing employees.

The concept of positive action cannot be put into a formula. Innovation and initiative are needed by management to achieve its goals according to the situation and circumstances.

EFFECTS OF THE GUIDELINES

At the present time, the major job facing us at Treasury is building a competent staff to administer the guidelines in a helpful, fair, but firm fashion. With the limited staff we now have, we are also currently embarked on an educational campaign of telling banks about their new responsibilities.

Our efforts have the welcome support of the American Bankers Association, which recently endorsed our guidelines and renewed its pledge to promote equal employment opportunities within the banking system.

The response to our guidelines has been good from what we can judge in the short five and a half months they have been in force.

There have been only a couple of banks that have given up their Federal deposits rather than comply with the new rules. All the others appear to be going along.

Furthermore, only a small number of banks have violated our guidelines covering their advertising for personnel. These banks, however, did so through oversight, and immediately complied when the matter was brought to their attention.

There is no doubt in my mind that the guidelines are workable and good for banking. They will prove increasingly helpful in the recruitment of personnel who can make important contributions to the banking industry. I think the recent remarks on this point by Jack Conn, President of the American Bankers Association, are very pertinent. I quote:

"The banking industry today is going to great lengths to attract and retain competent personnel necessary to run our banks. Several shortages of skilled personnel have cropped up in many areas. It seems to be that the (Treasury's) guidelines should serve as a starting point for banks in re-examining every aspect of their personnel policies. The efficient operation of banks requires that there be no discrimination against qualified applicants or personnel."

RECRUITMENT DIFFICULTIES

Recruitment of minorities into certain fields of work is one of the biggest problems faced by anyone trying to combat discrimination. In finance, the cold, hard fact is that there are not enough adequately trained people in most minority groups who want jobs in this field.

The Negro is a case in point. Through the years he has been drawn to the fields of sports, the stage, medicine, teaching and a number of others -- but not to finance. Lack of attraction to the Negro for finance comes, undoubtedly, from his attitude that there was no chance for a job in this field in the past, and possibly finance lacked the glamour and often the pay of other areas of endeavor.

As a former Chairman of the Federal Deposit Insurance Corporation, I have some firsthand knowledge of the situation. Because of the trouble we had in attracting Negroes, we decided to start a special program to interest them in a Government finance career.

In 1965 the Corporation, in cooperation with the Civil Service Commission, invited twelve Negroes in their junior college year to come to Washington during the summer for the first student trainee bank examiner program. The group worked with career examiners and supervisors, both in Washington and in the field.

That program proved successful. We were able to interest some of the original group to enter Government service with the General Accounting Office after their graduation.

The FDIC program will continue again this summer, widened, somewhat, to include Hawaiian and Puerto Rican students, as well as Negroes and whites.

I have described this effort at some length because it is indicative of the approach necessary to attract minorities to the financial field. I think this approach could well be applied to other specialized fields.

The Federal Deposit Insurance Corporation's program is one part of our efforts. The Office of the Comptroller of the Currency, the Internal Revenue Service, as well as other bureaus of Treasury, have a regular campaign to attract Negroes and other minorities.

Educating and encouraging minority groups to the opportunities in Government finance is a two-way street. Educators and leaders of minority groups have to do their share. They must increase their efforts to make members of their race aware that jobs in finance and other fields, once considered "off-limits," are now open and attractive to anyone properly trained.

I must add that we at Treasury are proud of our efforts to expand employment for minorities. The number of Negroes in Treasury, for instance, increased from 8,965 to 12,194 between

1961 and 1965. This increase has been reflected in many levels, including senior ones. The Internal Revenue Service, as one example, now has three Negro Assistant Directors. Furthermore, we recently appointed a Negro as the Alternate Executive Director of the World Bank.

I do not want to leave the impression with anyone that I advocate hiring and promoting only persons of minority groups as the method for combating discrimination. This is not the case at all. I am strongly opposed to employment practices that give preference because of the color of an individual's skin or his religion. This "reverse discrimination" is as bad and wrong as the discrimination we commonly know.

What I am trying to emphasize is this: If we are to break through an attitude that has persisted for roughly 100 years and if we are to succeed in our effort to make banking and finance truly representative of all the people of this nation, then we must be prepared to make extraordinary efforts in education and recruitment. We must do this to insure that when a job is available, a Negro or a member of a minority group has an equal chance for the position.

In this regard I want to make it very clear that our efforts in the Government are directed not only to improve our own manpower, but also to provide a source of minority personnel for private industry. While I occasionally moan and groan when industry raids our personnel, still I am quite well aware of the fact that Government can and does provide a source of skilled manpower to the private industry of the nation.

Bank examiners are a case in point. They have traditionally been a source of executive personnel for the banking community. This is the reason why I have placed emphasis on the program of the FDIC.

THE NEED FOR LEADERSHIP

In closing my remarks, there is an important point that must be stressed in any discussion of this topic.

The point is that equal employment laws, regulations or guidelines have limitations. They are, after all, only a fundamental base for the projection of affirmative action in this area. They will not of themselves end discrimination. They can, however, stimulate efforts.

Therefore, it is up to you bankers here -- as leaders in your industry and community -- to see that these efforts are translated into actual results. The message I want to leave with you then is this:

The motivation with which you approach this undertaking -- your degree of intent, determination and resolve -- is probably the most important element in achieving the goal of equal employment opportunity for all.

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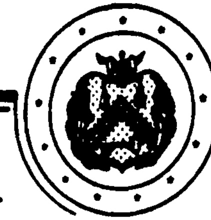
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 24, 1967

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 June 1,1967, in the amount of $2,309,175,000, as follows:

91-day bills (to maturity date) to be issued June 1, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated August 31, 1966, and to mature August 31, 1967, originally issued in the amount of $1,000,051,000 (additional amounts of $500,717,000 and $1,004,485,000 were issued November 30, 1966, and March 2, 1967, respectively), the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued June 1, 1967, in the amount of $1,000,000,000, or thereabouts, representing an additional amount of bills dated November 30, 1966, and to mature November 30,1967, originally issued in the amount of $900,493,000 (an additional $499,956,000 was issued February 28, 1967), the additional and original bills to be freely interchangeable.

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

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, May 29, 1967. 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 June 1, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 1, 1967. 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 frc any Federal Reserve Bank or Branch.

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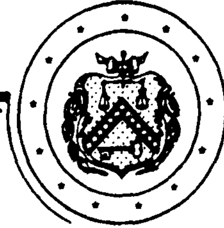
TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Wednesday, May 24, 1967.

RESULTS OF TREASURY'S MONTHLY 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 February 28, 1967, and the other series to be dated May 31, 1967, which were offered on May 17, 1967, were opened at the Federal Reserve Banks today. Tenders were invited for $500,000,000, or thereabouts, of 274-day bills and for $900,000,000, or thereabouts, of 366-day bills. The details of the two series are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	274-day Treasury bills maturing February 29, 1968		:	366-day Treasury bills maturing May 31, 1968	
	Price	Apprix. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	97.028	3.905%	:	96.030	3.905%
Low	96.971	3.980%	:	95.966	3.968%
Average	96.998	3.944% 1/	:	96.001	3.933% 1/

38% of the amount of 274-day bills bid for at the low price was accepted
1% of the amount of 366-day bills bid for at the low price was accepted

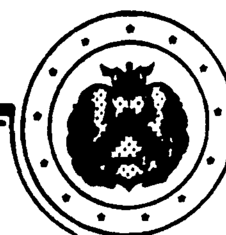
TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 10,000	$ 10,000	:	$ 25,025,000	$ 5,025,000
New York	869,526,000	420,926,000	:	1,004,830,000	702,580,000
Philadelphia	4,877,000	877,000	:	8,702,000	702,000
Cleveland	5,510,000	5,510,000	:	11,313,000	11,313,000
Richmond	312,000	312,000	:	7,134,000	7,134,000
Atlanta	5,325,000	2,325,000	:	9,846,000	5,846,000
Chicago	203,129,000	38,129,000	:	254,339,000	114,339,000
St. Louis	1,381,000	1,381,000	:	6,148,000	4,148,000
Minneapolis	600,000	600,000	:	1,226,000	1,226,000
Kansas City	3,372,000	3,372,000	:	6,252,000	6,252,000
Dallas	11,440,000	9,440,000	:	12,253,000	10,253,000
San Francisco	27,158,000	17,158,000	:	51,424,000	31,424,000
TOTALS	$1,132,640,000	$ 500,040,000 a/		$1,398,492,000	$ 900,242,000 b/

a/ Includes $14,583,000 noncompetitive tenders accepted at the average price of 96.998
b/ Includes $25,008,000 noncompetitive tenders accepted at the average price of 96.001
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 4.11% for the 274-day bills, and 4.12% for the 366-day bills.

F-932

TREASURY DEPARTMENT



WASHINGTON, D.C.

FOR RELEASE 6:30 P.M.,
Monday, May 29, 1967.

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 31, 1966, and the other series to be an additional issue of the bills dated November 30, 1966, which were offered on May 24, 1967, 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 August 31, 1967		:	182-day Treasury bills maturing November 30, 1967	
	Price	Approx. Equiv. Annual Rate	:	Price	Approx. Equiv. Annual Rate
High	99.133	3.430%	:	98.124	3.711%
Low	99.118	3.489%	:	98.105	3.748%
Average	99.121	3.477% 1/	:	98.113	3.733% 1/

91% of the amount of 91-day bills bid for at the low price was accepted
44% of the amount of 182-day bills bid for at the low price was accepted

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 18,984,000	$ 8,984,000	:	$ 14,633,000	$ 4,633,000
New York	1,667,811,000	920,721,000	:	1,388,176,000	765,156,000
Philadelphia	24,515,000	12,515,000	:	16,643,000	8,643,000
Cleveland	27,693,000	22,693,000	:	23,008,000	13,008,000
Richmond	10,176,000	10,176,000	:	3,755,000	3,755,000
Atlanta	50,287,000	33,822,000	:	28,384,000	16,048,000
Chicago	380,543,000	122,744,000	:	334,563,000	65,283,000
St. Louis	46,183,000	37,557,000	:	28,499,000	17,059,000
Minneapolis	25,320,000	11,223,000	:	17,879,000	7,054,000
Kansas City	21,516,000	21,516,000	:	14,602,000	14,602,000
Dallas	24,012,000	15,922,000	:	15,702,000	9,702,000
San Francisco	108,169,000	82,764,000	:	87,150,000	76,050,000
TOTALS	$2,405,209,000	$1,300,637,000 a/		$1,972,994,000	$1,000,993,000 b/

a/ Includes $228,802,000 noncompetitive tenders accepted at the average price of 99.121
b/ Includes $98,039,000 noncompetitive tenders accepted at the average price of 98.113
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 3.57% for the 91-day bills, and 3.87% for the 182-day bills.

F-933

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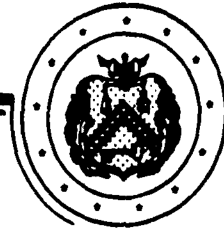
TREASURY DEPARTMENT



WASHINGTON, D.C.

May 31, 1967

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 June 8, 1967, in the amount of $2,300,692,000, as follows:

91-day bills (to maturity date) to be issued June 8, 1967, in the amount of $1,300,000,000, or thereabouts, representing an additional amount of bills dated March 9, 1967, and to mature September 7, 1967, originally issued in the amount of $1,000,488,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,000,000,000, or thereabouts, to be dated June 8, 1967, and to mature December 7, 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, June 5, 1967. 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-934

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 June 8, 1967, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 8, 1967. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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